FISCAL FIX
HOW THE STATES LEAD—
WILL OBAMA FOLLOW?

AFTER THE SPILL
BIG OIL PLOTS ITS COMEBACK

SNAKE OIL
IN YOUR SNACKS

Forbes

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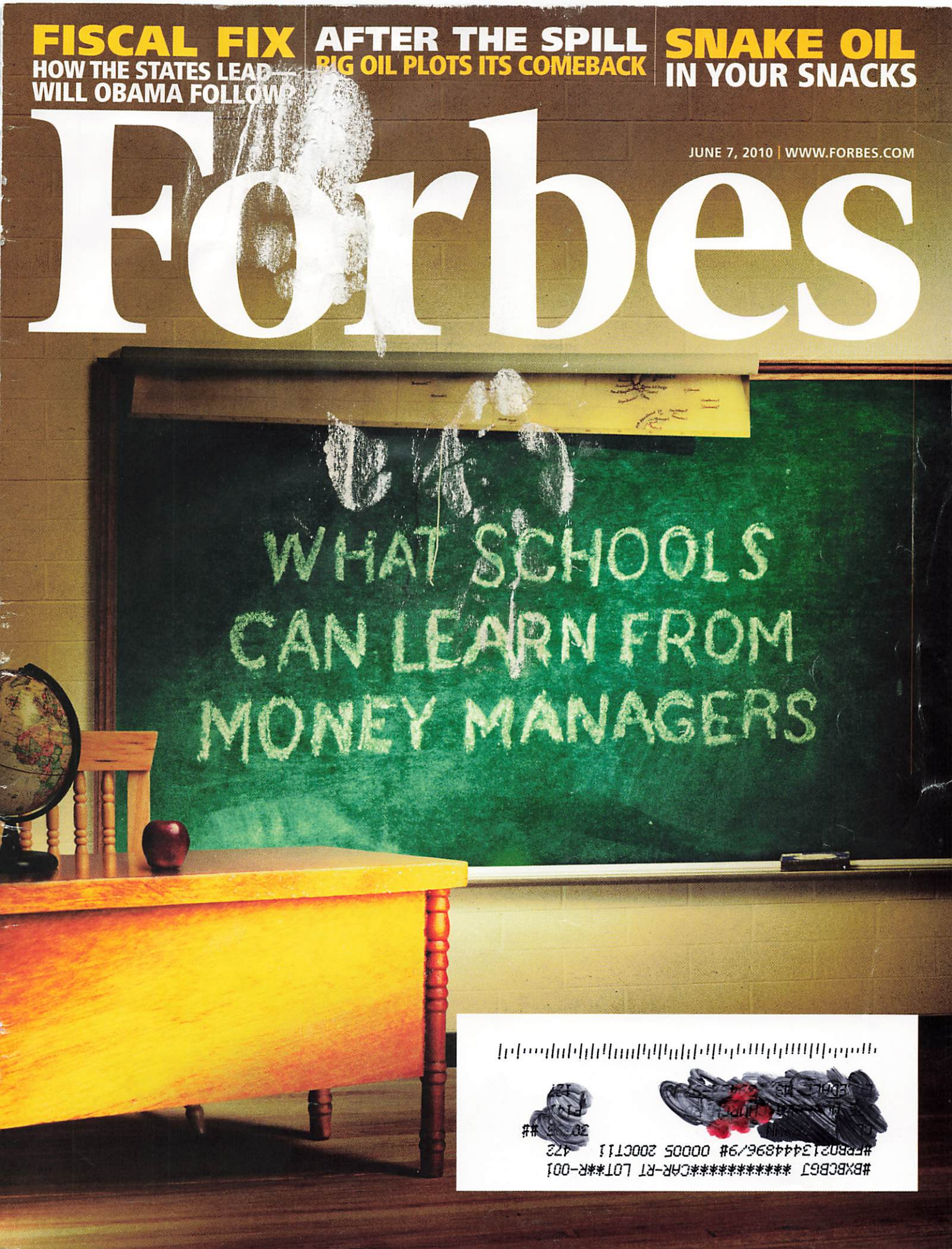

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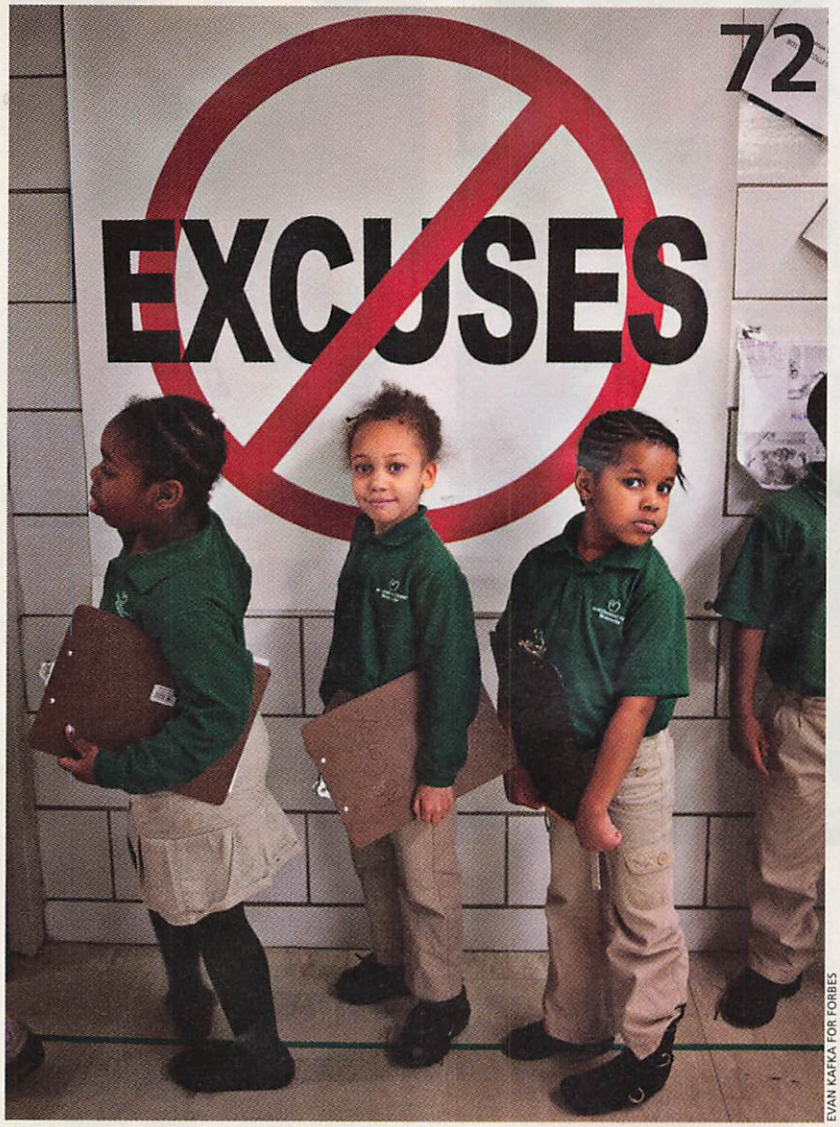

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JOHN KUCZALA FOR FORBES

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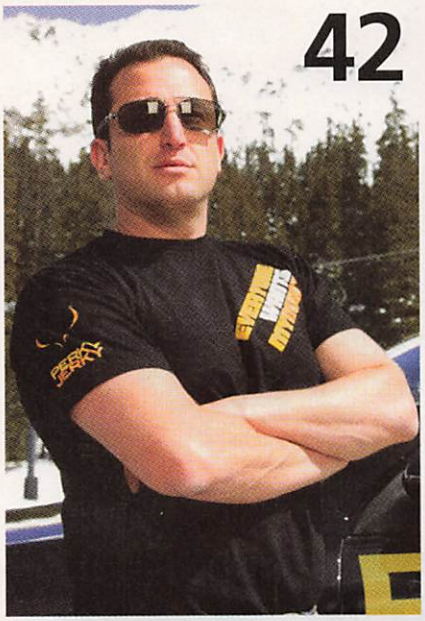

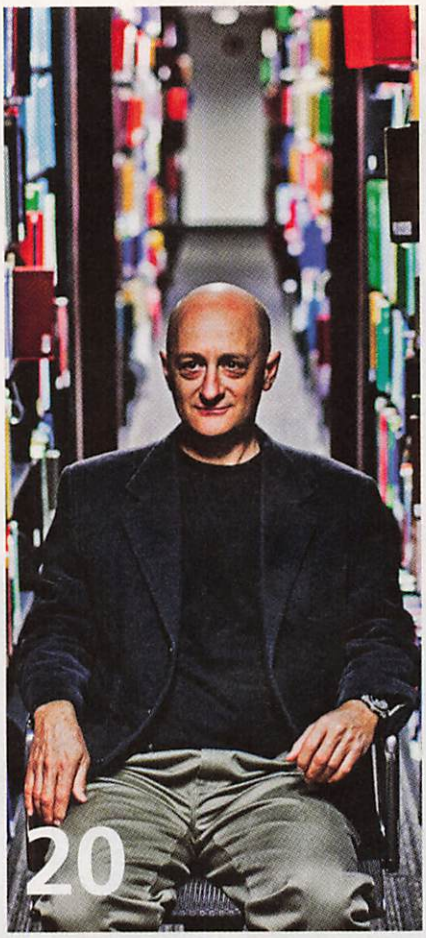

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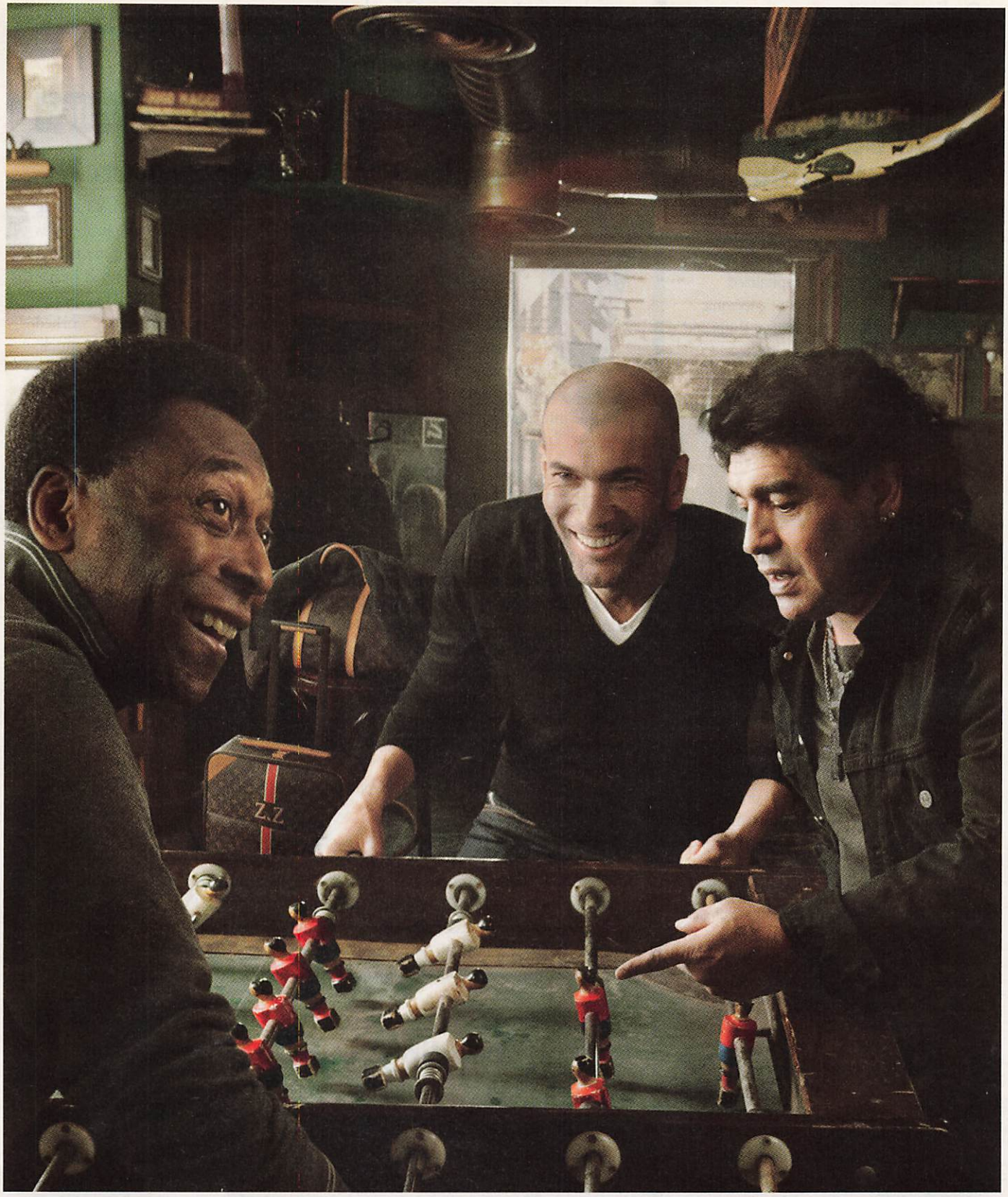

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SPECIAL REPORT

Small Business Survival Guide

Entrepreneurs are beset on all sides—by a lingering credit crunch, better-capitalized competitors, tectonic technological shifts and burdensome regulations, to name a few. Our new guide, chock full of tips and profiles, offers timely assistance and inspiration. Go to www.forbes.com/smallbizsurvivalguide.

SPECIAL REPORT

America's Most Expensive Homes

Bridgehampton, N.Y.
$75 million

Our latest annual listing of the ten most expensive homes on the market shows that prices for this rarefied group of properties are firmer than they were 12 months ago. This year's group ranges in asking price from $65 million to $150 million, with an average price of $88.5 million. That's nearly $10 million higher than last year's average. A handful have been on the market for several years, but five are newcomers to our list. To see them all, go to www.forbes.com/homes.

INTELLIGENT INVESTING WITH STEVE FORBES

In a rare interview **Phil Purcell** shares his lessons from the financial front lines. The former chief executive of Morgan Stanley tells Steve Forbes why he likes the financial sector right now. Also, TD Bank Chief Executive and President Bharat Masrani reveals major expansion plans for North America.

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Readers Say

RECENTLY IN FORBES MAGAZINE

Health Care and Heartburn

Wow, did you miss the mark regarding Nexium and what's wrong with health care ("Little Pricey Pill," *Apr. 12, p. 30*). The problem is not with insurance companies agreeing to pay for Nexium; it's that consumers don't get to speak with their dollars. I have bad heartburn and have tried every brand accepted by UnitedHealthcare. The only one that works consistently is Nexium. If Prilosec worked better, I'd choose it. I would personally pay three times as much, maybe more, for Nexium because it works for me. But let that be *my* choice with *my* dollars! If everyone chose the best product based on price and available information, then AstraZeneca would price Nexium accordingly.

MARTIN GOODMAN
San Diego, Calif.

Alphabet Soup: CFP Versus CFA

I enjoyed your article on fee-based brokerage accounts ("Bum Wrap," *Apr. 12, p. 46*). While certified financial planners (CFP) can be a fine resource for general financial planning, the chartered financial analyst (CFA) designation is the worldwide gold standard for investment management. Many CFPs have their own "branded" products to sell, which replicates the problems some investors have with certain brokerage firms. CFA investment managers, on the other hand, largely use only exchange-traded assets. Thus the risk of conflicts of interest are even further reduced when working with a CFA.

MATTHEW EADS, CFA
Portfolio manager, Eads & Heald Investment Counsel
Atlanta, Ga.

One Employee at a Time

In "You Call That a Stimulus? Give Small Biz Something Real" *(Apr. 26, p. 20)* you state that there are 27 million small businesses in the U.S. Even if that number is off by 50% these businesses hold the key to reducing unemployment. If every small business hired only one full-time employee beyond its existing employees we would eliminate our unemployment problem at no cost to the country.

LARRY CIANCIA
Vero Beach, Fla.

Bottom-Feeding Hairdressers

It is not possible for bottom-feeders such as hairdressers (John Paul DeJoria) and casino owners (Phillip Ruffin) to provide "a view from the top" ("Billionaire Forecasts," *May 10, p. 32*). Shame on you for your attempt to elevate these billionaires to a status that they do not deserve. I refer you to the Bible quote that appears in "Thoughts on the Business of Life" *(p. 172)* of that same issue for a jolt of editorial dissonance: "They that observe lying vanities forsake their own mercy" (Jonah 2:8).

THOMAS RAJALA
Prescott, Ariz.

Correction: In our map in "Headquarters Inc." *(May 10, p. 96)* we inadvertently highlighted Niger instead of the intended country, Nigeria.

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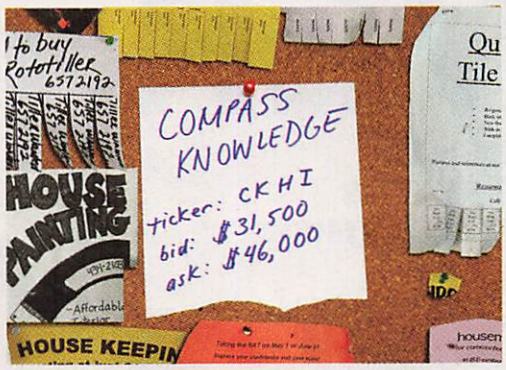
Sidelines

Buying Stocks at Rummage Sales

ANTIQUES ROADSHOW FANTASY: YOU pick up an old chair at a tag sale for $150, and a few months later an expert appraiser is taking a close look. Seems you have an early Philadelphia tassel back with the original finish, he says. At auction it could fetch $12,000.

Wall Street fantasy: You stumble across $15 shares of a small out-of-favor company that happens to have great strategic value. Some years later the company is acquired at $1,200 a share.



Can you make money buying castoffs? Sure, if you have an eye for value—and infinite patience. The Web is making this kind of investing hobby easier to pursue. Steven Bertoni profiles *(p. 38)* an entrepreneur with an electronic clearinghouse for illiquid financial assets: auction-rate IOUs whose auctions are busted, limited-partnership interests whose owners want out because the tax benefits have been sucked dry, formerly public companies that have gone into hiding.

Much evidence has accumulated, in academia and elsewhere, that portfolios of small companies trading at low multiples of earnings or book value outperform the market as a whole. This is as it should be. Investors should be rewarded for putting up with investments that lack both glamour and salability. Proof of the theory can be found at Tweedy, Browne, a money manager that in its early days specialized in thinly traded stocks. The firm has recently veered off into big value stocks like Nestlé, but its oldest portfolio, a partnership going back just over half a century, owes its stunningly good long-term results to obscure securities. Before fees, it has beaten the market by seven percentage points a year.

Another buyer of unloved stocks is Lawrence J. Goldstein, 74, whose Santa Monica Partners claims a return, since inception in 1982, of 15% a year before fees, 12% after (versus the market's 11.3%). One of his favorites: Compass Knowledge Group, a company that runs online learning sites for big universities. At $31,500 a share bid, $46,000 ask, this is not suitable for in-and-out trading. But look at the value. The company earned $6,869 a share last year.

Compass used to be an actively traded stock, but holders drifted away and the company thinned their ranks further with a 1-for-25,000 reverse stock split. You could do well with this stock, if you don't mind waiting maybe a few decades for the guy running Compass to decide it's time to cash out. But there's a bigger moral for investors here. If there is money to be made buying illiquid stocks off a bulletin board, there is surely money to be lost buying new, shiny securities at full prices and then having to exit at rummage sale prices. Be wary of new issues; you're often better off waiting until the initial excitement has died down. And don't buy limited-partnership tax shelters.

William Baldwin

Forbes

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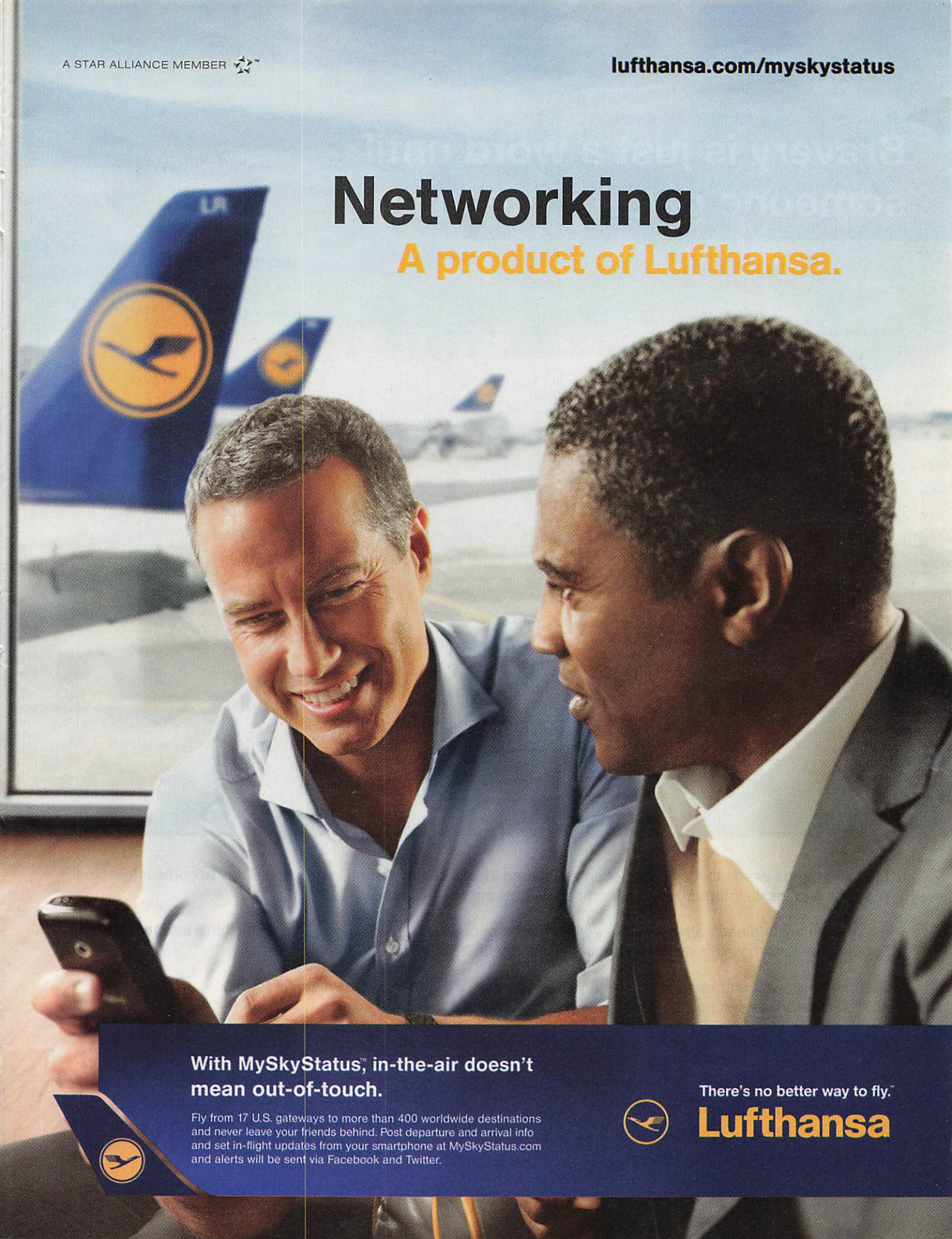

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Fact and Comment

"With all thy getting get understanding."

Europe's Unsung Heroes

NOT EVERY RECESSION-HIT COUNTRY IN EUROPE IS LIKE WAYward Greece, Portugal and Spain.

Recently Prime Minister Andrius Kubilius of Lithuania dropped by our offices to discuss his small country's economic prospects. Unlike Greece, which has garnered headlines for its economic woes, Lithuania more than a year ago firmly faced up to the economic crisis and took stern measures. Government spending was slashed by 30%. Public-sector salaries were cut 20% to 30%. And pensions were knocked down an average of 5%. The prime minister himself took a pay cut of 45%. Yes, some taxes were raised, and the corporate rate was hiked from 15% to 20%. But then it was knocked back to 15% in January. And Lithuania's flat tax—also 15%—was left alone. Amazingly, Lithuanian unions went along with the government's policies. There were no street riots à la Greece.

SF and Lithuanian Prime Minister Kubilius, who is greasing the skids for his country's future prosperity.

Lithuania is now showing positive growth again. In the years ahead its recovery should outpace that of most members of the EU because Lithuania isn't wedded to slow-growth policies, as are most western European states. In fact, before the crisis the Lithuanian economy had been on fire. Lithuania was one of the pioneers of the flat tax, and it had also instituted a currency board to fight inflation. Today its currency is fixed to the euro, and the country hopes to formally adopt the euro in 2014.

Latvia, another Baltic country, is also a non-Greece. It couldn't escape the clutches of the IMF, but it did stoutly and successfully resist intense pressure to ditch its flat tax, recognizing that its low-tax regime was the best way to ensure real recovery and greater prosperity in the future.

Neighboring Estonia has also tightened its belt. It was in a better position because during the boom years it had shown amazing spending restraint—so much so that in a few months it will likely win formal approval from the EU to join the euro zone. That's sure proof that talk of the euro's demise is much exaggerated.

The prospect of joining the euro bloc spurred these countries to pursue tough policies during the economic crisis. They know that being linked to the European and global economies is a ticket to greater prosperity.

Ireland is another nation that has taken stiff economic medicine. Like the Baltic states, it had become an economic miracle, with its business-friendly tax regime and enthusiastic welcome for foreign investment. And, as were Lithuania and Latvia, Ireland was hit hard by the global recession. But unlike Greece, Spain and Portugal, it didn't wait for a collapse before taking tough structural measures, including public-sector pay cuts. Ireland also had to fight back efforts by the tax-loving EU bureaucrats in Brussels to sharply boost its corporate tax rate of 12.5%.

Little London

BRITAIN HAS ITS FIRST COALITION GOVERNMENT SINCE WORLD War II. But don't expect anything like the miraculous results that the Churchill-led coalition achieved during that great conflict. Yes, there will be budget cuts, badly needed in a country whose public-sector spending now accounts for more than half of the economy. But growth-sparking policies, e.g., cuts in the tax rates and deregulation, are off the table. Under Labour's 13-year rule Britain has hammered small businesses with regulations and cluttered its tax code with all sorts of exactions and fees. There will be some reductions for low-income earners, but rates will stay up for the alleged rich, and there will be no relief for most others.

This new regime has no real understanding that lowering the burden on risk-taking and investing would stimulate economic growth, which would mean more government revenue *and* a surge in the value of capital assets. Higher asset values, of course, make the servicing of debt easier. Prime Minister Margaret Thatcher was cut from a far different cloth. Under her leadership Britain went from being the sick man of Europe to being the EU's most dynamic large economy. Now it will continue its slide back to the ignominious position it occupied from the 1950s to the late 1970s.

The Tories will eventually eviscerate their Liberal Democrat partners by fomenting intraparty divisions. It's happened before. In the midst of WWI Conservatives formed a coalition with a large faction of Liberals. The breach between Liberals aligned with David Lloyd George (head of the new coalition) and those with H.H. Asquith (the ousted prime minister) never truly healed, and the party that had dominated British politics for generations never won another election.

At least the last Liberal split-up helped Britain win a world war. This time the fractures will only accompany unnecessary economic stagnation.

GLEN DAVIS FOR FORBES

We're Not Making This Up

AT A TIME WHEN EUROPEAN ECONOMIES ARE DROWNING IN debt and finding it difficult to shake off the recession, along comes the EU to declare that *tourism* is a human right and that governments should subsidize vacations for those who can't afford nice trips. Antonio Tajani, the EU commissioner for Enterprise & Industry, recently declared: "Traveling for tourism today is a right. The way we spend our holidays is a formidable indicator of our quality of life." Under his plan there would be special subsidies for young people, the disabled and the elderly. Commissioner Tajani says this new right would instill a sense of cultural pride among all Europeans and would also help the economy by bringing new business to resorts during their off-seasons.

What's next? Subsidies for dating services?

Why this European obsession with ever expanding fringe benefits? Years ago Nobel Prize-winning economist Edward Prescott posed the question as to why Americans worked harder than their European counterparts. Was it cultural? Genetic? No. Turns out Europeans labored just as hard as—sometimes harder than—we did until the 1970s, when Europe's tax burden started to become heavier and heavier. As people got to keep less of what they earned and goods and services became more expensive, thanks to an ever rising value-added tax, Europeans, not surprisingly, opted for more leisure time and tax-free benefits.

Vacation times ballooned, and folks focused less on being productive. Entrepreneurs and innovators were stifled. Europe's private-sector job creation in the last 40 years has been almost nonexistent, while the U.S. has been a high-tech leader, creating tens of millions of new nongovernment jobs.

Arsenal for Free Markets

AT A TIME WHEN WASHINGTON IS RElentlessly attacking the private sector with job-killing taxes, bailouts and regulations, the website for the U.S. Chamber of Commerce's American Free Enterprise campaign serves as a much-needed beacon of enlightenment.

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i am free enterprise
VIDEO CONTEST
THE FINALS: VOTE FOR THE BEST VIDEO!
2010 GOVERNORS SUMMIT: CREATING JOBS THROUGH FREE ENTERPRISE
LATEST NEWS

Take a look at freeenterprise.com. You'll find everything from news about the chamber's "I Am Free Enterprise Video Contest" to a study demonstrating that states that pursue policies based on free-enterprise principles fare better economically than those that don't. There is also a sobering map of the jobs each state must produce over the next decade—20 million in aggregate—to replace those lost in the current recession and to create those needed for America's growing workforce population.

This site provides a quick, handy source of free-enterprise ammunition that will be particularly helpful in the numerous federal, state and local legislative and regulatory battles ahead, not to mention this year's elections.

Green BS About Cows

FARM ANIMALS SUCH AS COWS, SHEEP AND GOATS ARE PORtrayed by certain environmentalists as enemies of the atmosphere because of the methane they produce. Well, it turns out that livestock that graze on grasslands actually *reduce* another alleged global-warming-producing greenhouse gas, nitrous oxide.

A study carried out by Germany's Karlsruhe Institute of Technology and others in Inner Mongolia found that nitrous oxide proliferates when livestock have not been grazing. Grasses get longer, allowing microbes to incubate and, in turn, release this gas. When cows and other animals eat the grasses, the microbes die. After carbon dioxide and methane, nitrous oxide is the biggest greenhouse gas.

In reality grazing animals are global-warming neutral. This study has received little publicity, though, so don't expect to see pictures anytime soon of Al Gore frolicking with sheep or goats.

RESTAURANTS: GO, CONSIDER, STOP

Edible enlightenment from our eatery experts and colleagues Richard Nalley, Monie Begley and Chef Jeff Lamperti, as well as brothers Bob, Kip and Tim.

● **Faustina**—Cooper Square Hotel, 25 Cooper Square (Tel.: 212-475-3400). Trendy, Italian-inspired spot serving superb fare. Raves: poached duck egg served in a cast-iron skillet with a fontina fondue and grilled ciabatta; strozzapreti with suckling pig ragu; diver scallops with farro, sunchokes and morels; date pudding with fig ice cream.

● **Colicchio & Sons**—85 Tenth Ave., at 15th St. (Tel.: 212-400-6699). Its name may suggest a Brooklyn butcher shop, but this place is more three-martini lunch than local watering hole. The food is a hit. Try the hamachi with blood orange appetizer, and for main courses the roasted cod with smoked bacon, porcini mushrooms and spring garlic or the spicy lamb loin with merguez and lentils. Desserts: divine.

● **Rouge Tomate**—10 East 60th St. (Tel.: 646-237-8977). The cuisine, though dedicated to high nutrition, is delicious. Mushroom agnolotti drift in a rich broth, and the chicken salad is rich without the mayonnaise. There are even desserts presented as "spa" nutritional. A treasure for the foodie who wants to eat healthfully. **F**

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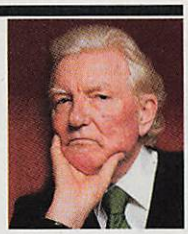
Paul Johnson, **AUTHOR**

Current Events



The English Language and Freedom

WHILE PLAYING A TINY PART IN BRITAIN'S RECENT ELECTION, I noted one aspect of it with concern: Some of the people to whom we'd given the right to vote spoke little or no English. As the electoral arguments, especially the televised debates between the party leaders, were conducted entirely in English, how could these voters know what they were voting for?

It's my view that Britain and the U.S. do not do enough to promote the spread of English, which thereby decelerates or even reverses the spread of democratic freedom. There's little doubt, for instance, that the hostility of the Muslim world toward the West is promoted by the failure of Muslim countries to develop democratic institutions, which, in turn, has been brought about by a resistance to the spread of English. Even among educated Muslims few have read the writings of British philosophers John Locke and Edmund Burke, not to mention those of America's Founding Fathers, which has lead directly to a lack of understanding of what the West is about.

This problem will intensify as China moves massively and confidently onto the world scene. Very few mainland Chinese speak English, nor do they have any conception of the liberal tradition that the language enshrines. It's alarming to realize that the Chinese government is spending massive amounts of money and deploying large numbers of people (by one calculation more than 1 million) to spread its notions and influence in Africa—cultural and political ideas that differ greatly from the West's.

Fortunately it's a different story in India, and the responsibility for this rests largely with one man, the historian Thomas Babington Macaulay. In 1834 Macaulay was sent to India as an administrator, and the next year he found himself president of the Committee of Public Instruction for Bengal. As such, Macaulay made up his mind that Indians—there were then fewer than 250 million—must be taught English and be exposed to Western culture because it would, as he put it, give them the key "to all the vast intellectual wealth, which all the wisest nations of the Earth have created and hoarded in the course of 90 generations."

Macaulay's policy was adopted, and as a result large numbers of Indians, especially those in the ruling, intellectual and clerical classes, began to learn English. In the process they began to absorb cultural and political ideas from the West, especially the need to uphold and establish the rule of law and to set up representative institutions.

Since India gained its independence in 1947 English has continued to spread, and India—now with a population exceeding 1 billion—has maintained democratic structures and methods and free courts of law, despite what was once a situation of overwhelming poverty and many difficulties. The contrast with China is fundamental.

Moreover, because India remained attached to the English language umbilical cord, ideas, methods and technology flowed into its educated and commercial classes on a scale and in ways that China, especially since its years of Communist totalitarian rule, has been denied. This gave India the advantage of being able to bypass an updated version of the Industrial Revolution and embark straightaway upon the communications and Internet revolution.

But China—once its government relinquished total control of every aspect of the economy and made a bid to create consumer institutions and raise living standards rapidly—had no choice but to begin with old-style smokestack industrialization. With its ultracheap workforce, China has become good at building conventional mills and factories and exporting low-priced goods globally. It is accumulating huge currency reserves and is financing the expansion of its armed forces. But these advantages will not necessarily last, and China is in danger of landing itself with a prematurely outdated economy, mass unemployment and huge problems regarding pollution and industrial waste.

Insurance Policy

As the century progresses India has a good chance of moving to the head of the innovatory field. It has both the freedom and the language to be receptive to new ideas and is in a position to produce technologies of its own that may become global winners.

India is about to overtake China in terms of population and will also outdistance it economically and financially well before the end of the 21st century. Where India will stand in relation to the U.S. I don't know. But America, with its own soundly based democratic institutions and traditions of intellectual and economic freedom, will be well placed to remain in the front ranks. I predict this will be a neck-and-neck race, with China running a poor third and Russia and Europe limping in as also-rans.

In the meantime we must make a much more concerted and determined effort to repeat the Macaulay initiative, pushing to have English spoken and read in large portions of the world, especially in western Asia, Africa and Latin America.

International finance and commerce, investment and travel are to some extent furthering this aim. But government policy could do much to help. It's important that the Obama Administration and Britain's new government take this point. I would like to see all of their agents—from diplomats to administrators of aid programs to commanders in the armed forces—say to themselves: "Am I doing enough to help the spread of English and Western ideas?" **F**

Forbes.com

Paul Johnson, eminent British historian and author; **Lee Kuan Yew**, minister mentor of Singapore; **Amity Shlaes**, senior fellow in economic history at the Council on Foreign Relations; and **David Malpass**, global economist, president of Encima Global LLC, rotate in writing this column. To see past Current Events columns, visit our Web site at **www.forbes.com/currentevents.**

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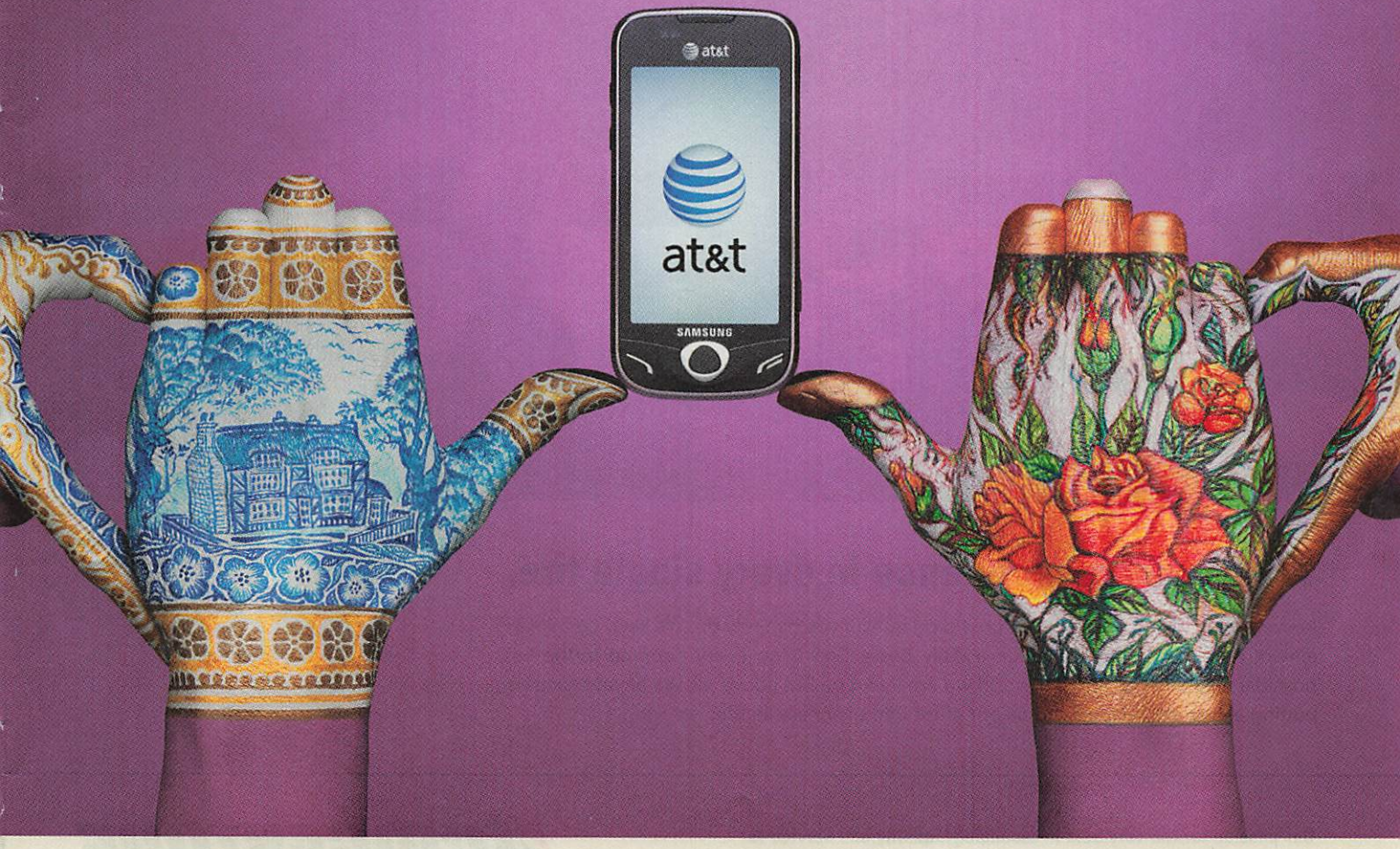

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Digital Rules

Recovery's Seven Secrets

THE ONE-YEAR-OLD RECOVERY IS WEAK AND UNEVEN. IT FACES headwinds of fear, deficits, terror threats, entitlement bombs, higher taxes and moral hazards, as well as armies of hair-trigger traders with their eyes on a black swan. Have we left anything out?

Oh, yes. Some companies managed to do well despite it all. Somebody forgot to tell Apple about the bad weather—same holds true for Domino's Pizza, Trek Bicycle, Scottrade, Salesforce.com, NetApp, Monsanto. Across a range of industries some companies are chugging ahead.

What do the winners have in common? They excel at most or all of the following corporate skill sets.

Design. The data deluge has arrived, courtesy of billions of Web pages and millions of marketing channels zapping us like bolts of lightning from clouds of bandwidth. There is no elevator, no airplane seat, no bar, no loo that is safe from the barrage. Between our ears there has been no improvement in processing and analyzing. Maybe nanotech will make every man a genius, but that's a generation or two away. Meantime, products must stick out to get noticed and be loved fanatically by users to get real momentum. Great design will prevail, whether it's an iPad, a Flip cam, a room at the W, a seat on Virgin or a bottle of Coke.

Speed. The pressing fact of business today is compressed margins. If you can't win on cost, then you must find other routes to margin. Good design is margin. So is speed. Last winter I broke my hip cycling and, fearing the loss of all my fitness, purchased a $4,000 spin trainer. That's what athletes do when they're desperate. But the spin trainer kept missing the ship. Meanwhile, my hip healed. One day I woke up and said: "Did I just pay $4,000 for an indoor bike?" I didn't need it anymore, so I canceled the order.

Blow the opportunity window and you blow the margin.

Cost. Maybe you can't beat a Chinese company on cost, but you can do much to bring your costs down. "Software as a service" from Salesforce.com, SAP and others gives you enterprise analytics at PC prices. Google may be known for its search engine and advertising model, but its cheap trick is harnessing millions of commodity servers to do the work.

Service. Customer-pleasing service can work at all points along the cost spectrum. Think Four Seasons at the top, Disneyland in the middle, Southwest Airlines at the bottom. The trick is being true to your brand and never promising service you can't deliver.

Take Southwest. How can this airline make you print out your own boarding pass, stand in line and scramble for available seats, and still have you feeling good about the whole deal? For one, that's how Southwest sets your expectations. Two, Southwest's attendants are given free rein to laugh and entertain you. The message is: We're all in this crowded aluminum tube together, so let's relax and have fun. Three, Southwest delivers where it counts: a good record of on-time arrival.

Communication outside. In a loud, overcrowded market with proliferating technologies and channels of communication that include everything from FORBES to Facebook to TV to Twitter, where do you even start? How do you allocate your ad dollars, your public relations? Which bases do you cover when you can't cover them all?

Start by asking these clarifying questions: What are the values of your company? How do customers participate in those values? You might end up doing things you hadn't thought of. Jon Iwata, chief marketing officer of IBM, regularly communicates to *ex*-IBM employees. Why? Because there are hundreds of thousands of them, and most of them will talk about IBM—for good or bad—on social networks like Facebook.

Communication inside. The first thing Johan Bruyneel did when he became Lance Armstrong's bicycle team director in 1998 was equip the whole team with radios and earpieces. That was once a star's perk, but Bruyneel knew that the Tour de France was a three-week expedition in which the mental errors of the entire team were cumulative. It was a difficult technical feat to fit every cyclist into the two-way radio loop, but Bruyneel pulled it off. As a team director he has eight wins and one third place in the Tour de France.

Purpose. In 2004 I was fortunate to hold one of the last recorded interviews with Peter Drucker, about 13 months before the great man's death. Drucker spent the last part of his career studying nonprofits—hospitals, museums, churches and the like. He felt they are as critical to a society's success as good government, entrepreneurs and thriving corporations. Drucker said one word separated enduring nonprofits from those that lapsed into bureaucratic stagnation or scandal: Purpose!

Entrepreneur and author Simon Sinek has discovered the same thing. All companies know *what* they do, says Sinek. They sell something, at a profit, they hope. The better companies know *how* to codify all the procedures and good habits that make success routine. The very best companies know *why* they do what they do. They have a purpose—a reason for existence that transcends profit. Driven by purpose, they create a movement and consequently get the most discerning and loyal customers. In today's crowded global marketplace customers "don't buy *what* you do," says Sinek. "They buy *why* you do it."

In this uneven recovery, with trust in tatters and fear off the charts, purpose has never mattered more. **F**

Forbes.com Read Rich Karlgaard's blog at **http://blogs.forbes.com/digitalrules** and banter with him there. See Rich Karlgaard's new **TalkBack** video series at **http://forbes.com/talkback** or follow him at **twitter.com/richkarlgaard.**

On My Mind

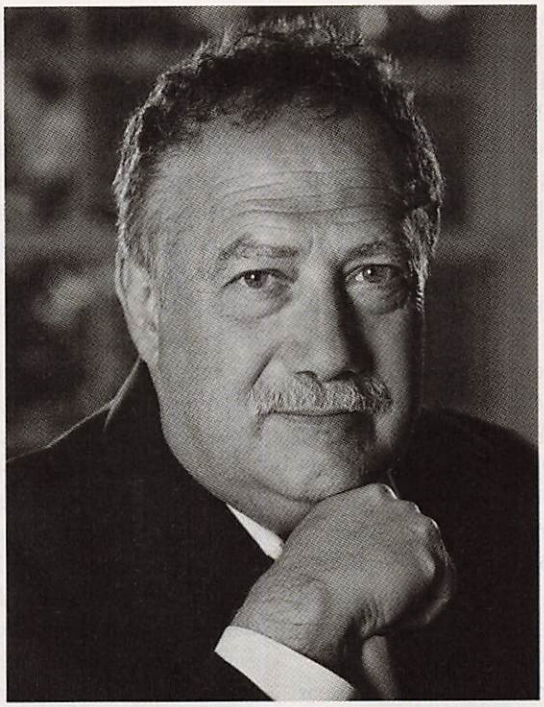
Houston: Model City

Innovation, job growth and immigration put this Lone Star city ahead of New York and Boston.

By Joel Kotkin

DO CITIES HAVE A FUTURE? Pessimists point to industrial-era holdovers like Detroit and Cleveland. Urban boosters point to dense, expensive cities like New York, Boston and San Francisco. Yet if you want to see successful 21st-century urbanism, hop on down to Houston and the Lone Star State.

You won't be alone: Last year Houston added 141,000 residents, more than any region in the U.S. save the city's similarly sprawling rival, Dallas-Fort Worth. Over the past decade Houston's population has grown by 24%—five times the rate of San Francisco, Boston and New York. In that time it has attracted 244,000 new residents from other parts of the U.S., while older cities experienced high rates of out-migration. It is even catching up on foreign immigration, enjoying a rate comparable with New York's and roughly 50% higher than that of Boston or Chicago.



Since 2000 Houston's employment has grown by 260,000. Most big cities have lost jobs.

So what does Houston have that these other cities lack? Opportunity. Between 2000 and 2009 Houston's employment grew by 260,000. Greater New York City—with nearly three times the population of Houston—has added only 96,000 jobs. The Chicago area has lost 258,000 jobs, San Francisco 217,000, Los Angeles 168,000 and Boston 100,004.

Politicians in big cities talk about jobs, but by keeping taxes, fees and regulatory barriers high they discourage the creation of jobs, at least in the private sector. A business in San Francisco or Los Angeles never knows what bizarre new cost will be imposed by city hall. In New York or Boston you can thrive as a nonprofit executive, high-end consultant or financier, but if you are the owner of a business that wants to grow you're out of luck.

Houston, however, has kept the cost of government low while investing in ports, airports, roads, transit and schools. A person or business moving there gets an immediate raise through lower taxes and cheaper real estate. Houston just works better at nurturing jobs.

It's not just smug coastal places getting smoked by Texas. Since the collapse of the housing bubble Houston has outperformed Sunbelt counterparts like Phoenix, Las Vegas and Los Angeles. A big factor has been that manufacturing, professional services, international trade and technology industries have been the primary drivers of the city's economic growth—rather than construction and speculation. Ironically, this has increased home values. Since 2007 prices of homes in Houston have ticked slightly higher, while those in Las Vegas, Phoenix, Los Angeles and the Bay Area each are down by more than 35%.

Some traditional urbanists will concede these facts but then try to shift the focus to "qualitative" factors: the best-educated residents, the highest salaries, the most expensive real estate. Although it also attracts a large number of low-skill migrants, Houston has considerably expanded its white-collar workforce. According to the Praxis Strategy Group, Houston's ranks of college-educated residents grew 13% between 2005 and 2008. That's about on par with "creative class" capital Portland, Ore. and well more than twice the rate for New York, San Francisco or Los Angeles.

But Houston's biggest advantage cannot be reduced to numbers. Ultimately it is ambition, not style, that sets Houston apart. Texas urbanites are busy constructing new suburban town centers, reviving inner-city neighborhoods and expanding museums, recreational areas and other amenities. In contrast with recession-battered places like Phoenix, Houston remains remarkably open to migrants from the rest of America and abroad.

Houston, perhaps more than any city in the advanced industrial world, epitomizes the René Descartes ideal—applied to the 17th-century entrepreneurial hotbed of Amsterdam—of a great city offering "an inventory of the possible" to longtime residents and newcomers alike. This, more than anything, promises to give Houstonites the future. F

Joel Kotkin is a distinguished presidential fellow in urban futures at Chapman University, adjunct fellow at the Legatum Institute and executive editor of Newgeography.com. His latest book, *The Next Hundred Million: America in 2050*, was published in February by Penguin Press.

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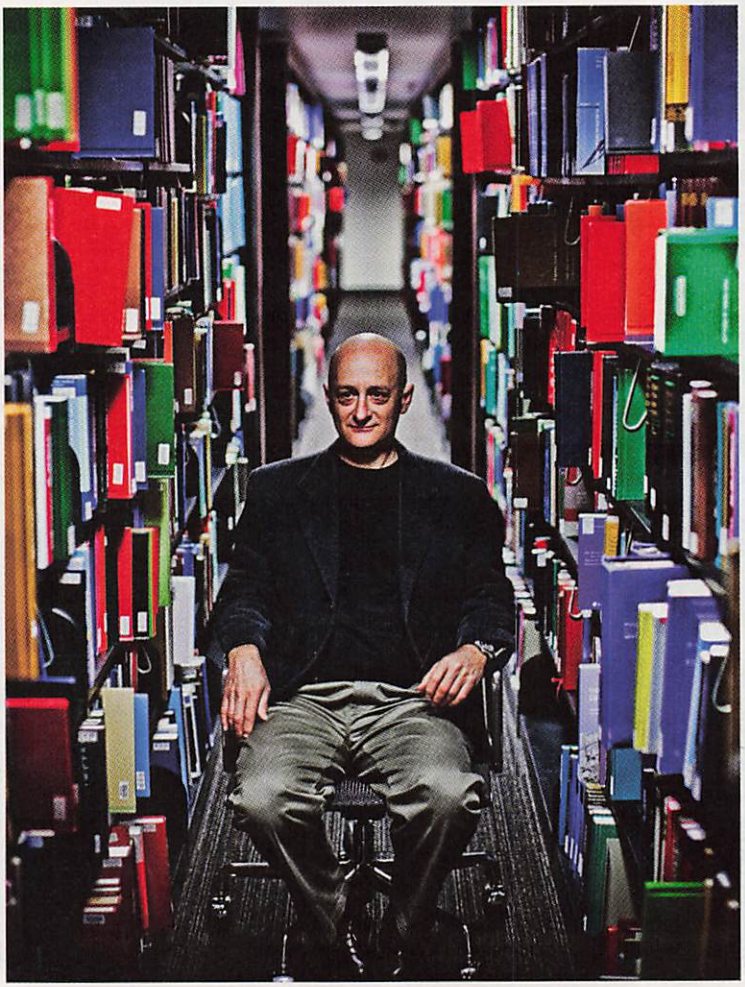
Omri Ben-Shahar and Carl E. Schneider

Disclosed to Death

It is a common presumption that providing consumers with more information helps them make better decisions. It doesn't, say these two law professors. By Kai Falkenberg



LAST MONTH 7,500 ONLINE shoppers agreed to provide the British retailer Gamestation with more than just cash. They signed over their rights to eternal life. Gamestation added an "immortal soul clause" to its terms and conditions as part of an April Fool's Day experiment. (Notice of the transfer would be announced in 6-foot-high letters of fire.) Customers who read the clause and chose to opt out received a £5 discount on their next videogame purchase. Only 12% did, proving Gamestation's point that most people agree to terms and conditions without reading them.

This seems obvious to everyone but lawmakers. With each new social problem that emerges, from financially conflicted doctors to predatory lending, the knee-jerk solution is increased disclosure. It's cheap, it's easy and it supposedly empowers people to make better decisions. Trouble is, it doesn't work. In a forthcoming law review article professors Omri Ben-Shahar and Carl E. Schneider expose the spectacular failure of this commonly used regulatory technique.

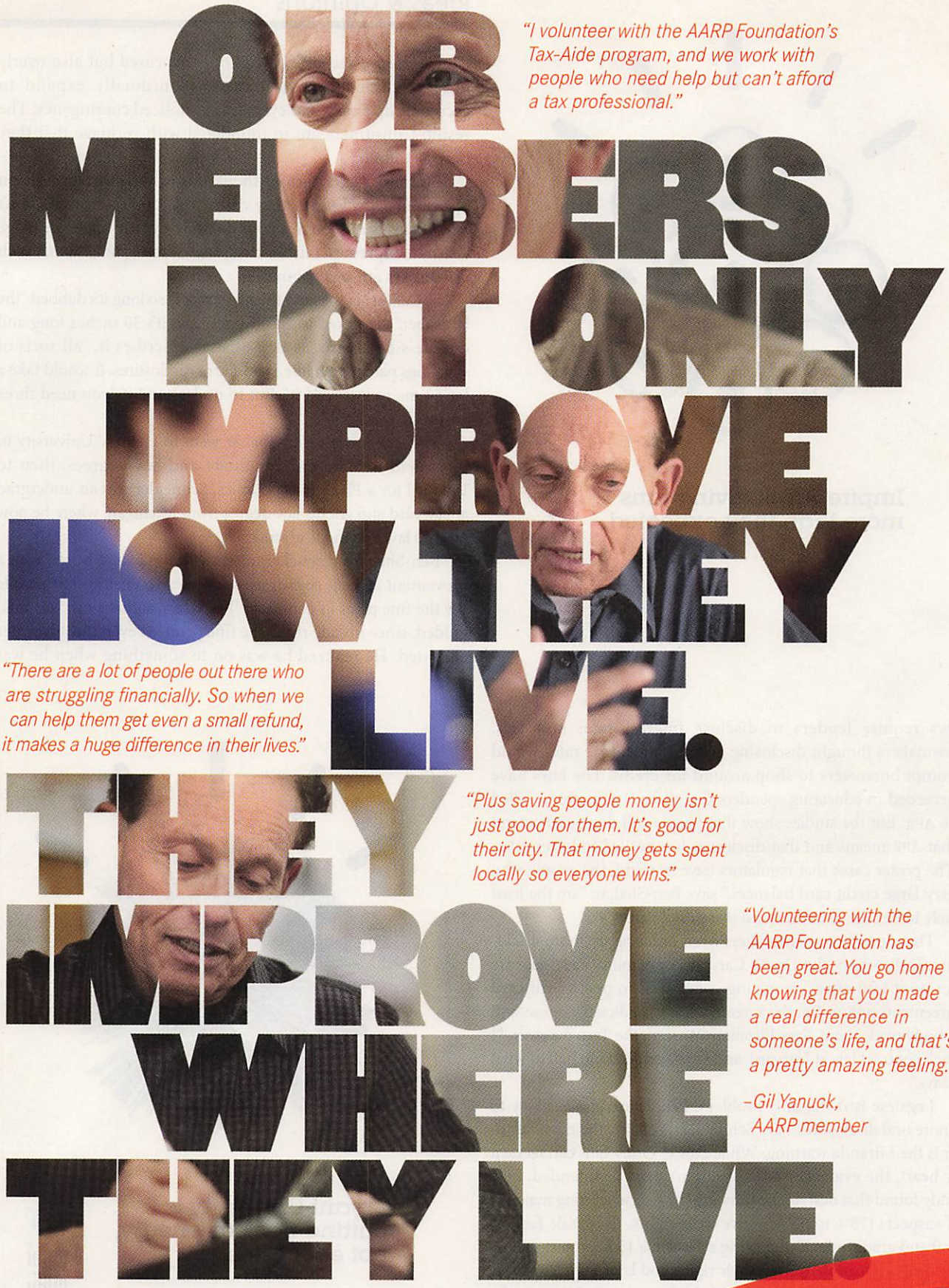
Omri Ben-Shahar *(top)*; Carl E. Schneider

In 2007 Ben-Shahar and Schneider were colleagues at the University of Michigan Law School, where Ben-Shahar taught contracts and Schneider focused on bioethics. Ben-Shahar, 47, who's now at the University of Chicago, was writing an article on the futility of boilerplate legal language in consumer transactions. Schneider, 62, had written extensively on the failure of informed consent in health law.

Over lunch one afternoon the professors had an epiphany—they realized they were both tackling the same problem from different vantage points. Delving further, they uncovered empirical evidence showing that mandated disclosure failed to improve decisions in just about every field.

Take credit cards. Truth-in-lending legislation and many state

BOB STEFKO FOR FORBES (TOP)



"I volunteer with the AARP Foundation's Tax-Aide program, and we work with people who need help but can't afford a tax professional."

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–Gil Yanuck, AARP member

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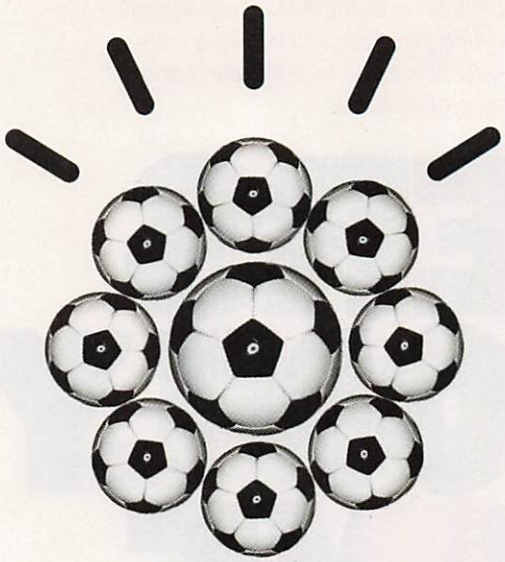


Impire AG is giving fans more than they expected.

laws require lenders to disclose interest rates and fees. Lawmakers thought disclosing annual percentage rates would prompt borrowers to shop around for credit. The laws have succeeded in educating spenders that there is something called the APR. But the studies show that people still don't understand what APR means and that disclosure has not led to lower rates. "The poster cases that regulators have in mind, the people who carry large credit card balances," says Ben-Shahar, "are the least likely to be able to understand these disclosures."

That doesn't stop lawmakers from ordering up more disclosure. In February the Credit Card Accountability & Disclosure Act went into effect, requiring companies to post credit card agreements online. But the agreements are predictably dense, and nobody reads them. Says Elizabeth Warren, the Tarp overseer, "I teach contract law at Harvard, and I can't understand half of what it says."

Legalese isn't the only problem. People are just as likely to ignore oral disclosures, says Schneider. Probably the most familiar is the Miranda warning. While *Law & Order* fans can recite it by heart, the evidence shows it doesn't work as intended. One study found that despite the warning the overwhelming majority of suspects (78% to 96%) waive their rights. Even Yale faculty, staff and grad students, following arrests in a 1967 protest against the draft, uniformly waived their rights and later regretted it. As Washington, D.C. attorney Patrick Malone puts it, "Next to the warning label on cigarette packs, Miranda is the most widely ignored piece of official advice in our society."

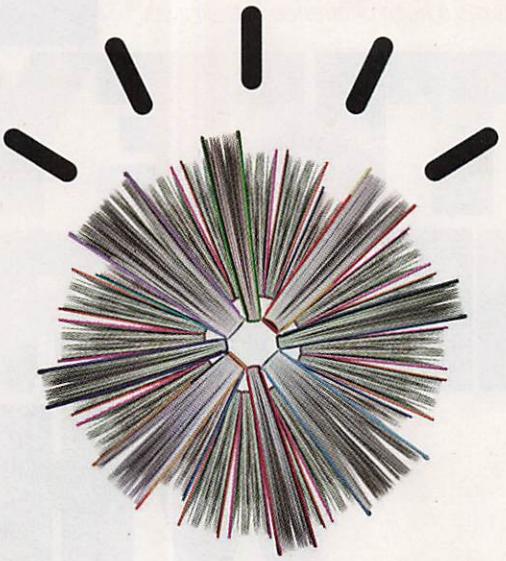
Disclosure statutes are not only overused but also overly broad. Disclosure requirements continually expand to accommodate each and every newly noticed contingency. The result: Consumers are so inundated with verbiage that they become numb.

Internet users confront thousands of words of legalese on just about every website they visit. Most people, of course, don't read them, even though a 2002 decision by then appellate judge and now Supreme Court Justice Sonia Sotomayor held that such disclosures are legally binding.

In California the auto sales contract is so long it's dubbed "the bedsheet." Required to fit on one page, it's 30 inches long and double-sided, with, as Ben-Shahar describes it, "all sorts of warnings patched on like a mosaic of disclosures. It would take a long time to just read it." But to understand it "you need three years of law school."

The Israeli-born Ben-Shahar went to Hebrew University in Jerusalem for his undergraduate and law degrees, then to Harvard for a Ph.D. in economics. Schneider was an undergrad at Harvard and got his law degree from Michigan, where he now teaches law and medical students.

Ben-Shahar's disenchantment with disclosure began with a movement among consumer advocates to ensure that people see the fine print in contracts. The effort, in his view, was misguided, since no one reads the fine print, as even the advocates admitted. He realized he was on to something when he was



Bryant University is cutting back on energy, not education.

booed for expressing this heresy at a legal conference.

Schneider, meanwhile, had found similarly misguided efforts in the medical field. While the legal focus had been on disclosure and obtaining informed consent, Schneider's research showed patients were far more concerned with finding a kind and competent doctor.

Disclosure isn't always a failure. Simple disclosures do help people make better choices in familiar areas—like choosing a restaurant. One successful effort is a Los Angeles County statute requiring the display of a hygiene grade card in restaurant windows. The easily understood grading system (A, B or C) has led to improved restaurant sanitation. But many important decisions are complex and difficult to reduce to simple language. As one clinical researcher points out, if a patient "has systemic mastocytosis and we want to invite him or her to participate in a controlled clinical trial of cimetidine versus disodium cromoglycate, we must say so."

There's an even trickier problem with the more-information-is-better mantra, says Schneider. It fails because it's based on a misunderstanding of the psychology of decision making. "When you look at the way people make decisions, even very skilled people, it isn't by gathering huge amounts of information and then trying to analyze it," says Schneider. Instead, they tackle complicated decisions by reducing their focus to a few easy-to-understand factors. Breast cancer patients, according to one study, choose between a mastectomy and lumpectomy based on just one factor, like the risk of recurrence. Similarly, patients with kidney disease often decide against dialysis when they learn of the large needles required.

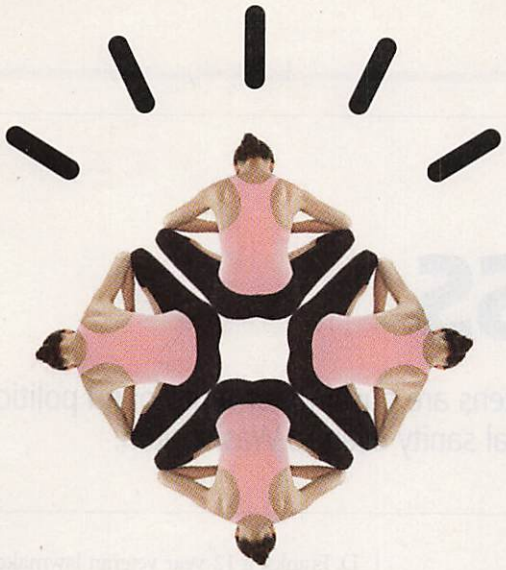
To make better decisions, people need more than just facts—they need expertise. Expertise allows them to put facts into context and simplifies their choices.

That's why, Ben-Shahar says, expert advice is more useful than raw facts. Lawmakers assume that people want to make decisions themselves, but often they really don't. Schneider says patients want their doctor to recommend a course of action. They want expertise, not more information.

Another way to foster good decision making, the professors say, is to "channel people's choices without mandating." Choose the best option for most people, and let those who disagree opt out. If this grates against your libertarian instincts, think of the way states deal with inheritances.

You start with a default option known as the law of intestacy. In Illinois it says that half of your property goes to your spouse and the other half is evenly divided among your children. If you don't like it you are free to modify the outcome by writing a will.

Not being averse to legislative paternalism, the professors think lawmakers should abandon mandated disclosure and simply outlaw some practices. As Schneider warns, "Samuel Johnson said that a second marriage was the triumph of hope over experience. We believe that efforts to make mandated disclosure work are another triumph of hope over experience." F



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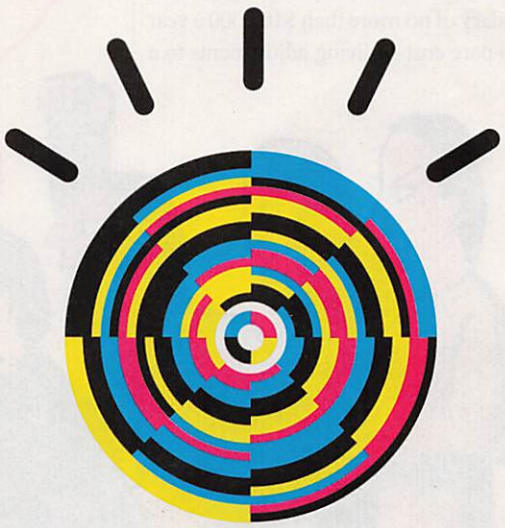

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Critical Mess

With state and local finances at the breaking point, citizens are pushing for a profound political realignment. So profound that it may one day bring fiscal sanity even to Washington.

By Stephane Fitch and Christopher Steiner

AS A NEW DAY DAWNED OVER the Illinois State Legislature one morning in March, a 39-page bill hit the floor like none seen in decades.

Public Act 96-0889 proposed slashing $71 billion from future state budgets. It did so by requiring newly hired state employees to work up to a dozen years longer than employees had to in the past, until age 67, to draw full pensions. It sought to forbid them from retiring with more than one government pension, to base pension payments on a salary of no more than $107,000 a year and to pare cost-of-living adjustments to a fraction of their former levels.

In other words, the bill proposed to detach a gilt-edged safety net that public employees' unions had spent generations lifting into place. So controversial was it that Jack D. Franks, a 12-year veteran lawmaker, figured it would take months of working its way through the legislative sausage mill before anything emerged from the other end.

Instead, by dinnertime that very day virtually every member of Springfield's bluest of blue-state legislatures had voted in favor of making the bill law.

ROBERT NEUBECKER FOR FORBES

"The idea, obviously, was to keep the unions from mounting opposition and getting to the members," says Franks, a Democrat. "I've never seen anything like it."

In the shadow of financial Armageddon an outraged populace is beginning to stir. Yes, Washington is still gorging on the public plastic by issuing trillions of dollars in new debt. States and cities, however, do not have their own printing presses and cannot count on the Chinese to fund their profligacy. Instead, they are collectively yet to breach $20 billion in remaining deficits in the current fiscal year and also need to find another $55 billion for next year fast. That's on top of $1 trillion to $3 trillion in unfunded pension promises, depending on how they are calculated.

"That's not a fuzzy, theoretical number like it would be in Washington," says Christopher Lehane, who worked as a special assistant counsel to President Bill Clinton and press secretary in Al Gore's presidential campaign. "When a city can't find money to pick up garbage, the garbage doesn't get picked up or the city raises taxes."

After decades of ever bigger public payrolls and cushier benefits, the breaking point has arrived. It is giving rise to a potentially profound political realignment. Democrats who built careers with backing from organized labor are turning into fiscal hawks. Small-government Republicans are pressing for income tax hikes.

"You'll see people in state and local governments taking measures that any sensible business would have taken a long time ago. They've simply run out of alternatives," says Mitchell Daniels, Indiana's Republican governor, whose unorthodox mix of spending cuts and tax hikes has turned his state's fiscal deficit into a surplus. "When I can't sleep at night, I don't count sheep. I count states where I'm glad I'm not governor."

In New Jersey, where the state and local tax take per household is the highest in the nation, voters tossed out free-spending Democratic Governor Jon Corzine last November and installed Chris Christie, a fiscally hawkish Republican. In May they committed another act of what formerly would have been political heresy and rejected 59% of their own school budgets in a state where academics have traditionally been a key draw for affluent Manhattan refugees.

In California, the land of public IOUs, the two biggest cities have been force-feeding labor a mix of pay cuts and furloughs under the direction of two once staunchly pro-union mayors—Antonio Villaraigosa of Los Angeles and Gavin Newsom of San Francisco. (Newsom has already succeeded, with 20 local unions accepting a $100-million-a-year cut in a $2.5 billion payroll.)

Farther south, the city of San Diego is suing its own pension system to force employees to contribute more to their retirement benefits. Back east, residents of Stowe, Vt. eliminated funding for the local high school's ski team. It was the alpine equivalent of a Texas town canceling football.

David Wilhelm, manager of Bill Clinton's first presidential campaign, likens the current political maneuvering to his former boss' "Sister Souljah moment," when, in a rare 1992 episode, the then presidential candidate risked alienating a core constituency and criticized a black female rapper for inflammatory comments about whites.

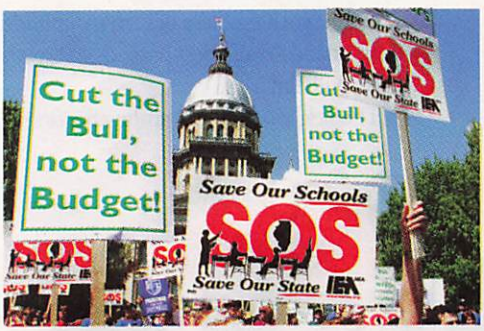
"We've got a problem of such magnitude that the standard alliances have to be thrown aside," Wilhelm says.

The sickliest states are among the first to

be acting, and Illinois certainly qualifies. The Land of Lincoln came in at the very bottom of a recent FORBES financial ranking that factored in state liabilities, tax revenues and employment prospects. The Illinois pension fund is $80 billion short of what it has promised to pay in benefits. That represents an unfunded liability of $17,230 per resident, the highest in the nation after Rhode Island's. Illinois' 2011 budget is $13 billion, or 50%, short of funding. Moody's counts only California's bonds as posing higher default risk.

This morass prompted 15,000 mostly union members to board buses or otherwise make their way to the state capitol in Springfield in April to protest. Unsurprisingly, a call for higher taxes to preserve their benefits ranked high on the agenda. In a recognition that business as usual is no longer an option, however, many protesters declared a willingness to pay more to fund their own pensions and to trim benefits, if that's what it'll take to ensure the system's long-term viability.

New Jersey Senate President Stephen Sweeney: a union boss turned fiscal hawk.



Springfield, Ill.: Labor pushed to preserve its state benefits but also showed a willingness to chip in more.

Marcelino Gutierrez, a 46-year-old union electrician employed by the City of Chicago, is outraged by plans to lay off 20,000 teachers. He says he'd gladly contribute an additional 2% or 3% of his salary to defray the cost of his pension—if it makes an income tax hike more palatable, saves education jobs and keeps his daughter's school open.

"How about throwing my kid a few crumbs?" he says.

Two other protesters, Roger Eddy and James Watson, are state representatives who favor raising Illinois' income tax. At a flat 3% it's among the lowest third in the nation. "There isn't a way to get out of this [the state's budget mess] without raising revenues," Eddy explains. Get a load of this: Watson and Eddy are Republicans.

Franks, the Illinois Democrat, wants to see big budget cuts before he'll consider a tax increase. He'd like to begin by slaying a sacred cow with union members and trim retirement benefits for current state workers.

"We have to start over with a zero budget and build from there," Franks says.

With politicians on both sides of the aisle in the mood to trim, there's certainly plenty of fat to reduce. One example involves jobs awarded to influential legislators that they often hold only briefly but use to double their lifetime pensions. Kurt Granberg, a former state representative, received a $40,000-a-year bump in his pension after serving as head of the Illinois Department of Natural Resources for all of 19 days. Granberg is just 56, and his pension will rise 3% per year, giving that $40,000 annual increase a net present value in excess of $1 million.

Who's carrying all these state employees on their backs? A dwindling private sector. Illinois has 4.7 million private sector jobs, down from 5.1 million two years ago. High taxes are sure to make that problem worse.

Illinois' prison system employs 22 state barbers who earn an average of $65,000 a year—nearly twice what full-time beauticians make in the private sector—and are entitled to retire early on inflation-protected pensions. "We're $6 billion behind on our bills. Has it occurred to anybody to just have the prisoners cut each other's hair with safety shears?" asks John Tillman, head of the libertarian Illinois Policy Institute. That, in fact, is the practice in federal prisons.

In New Jersey taxes are the hot-button issue, but pushing through change is still an uphill battle. In West Orange, a town of 16,000 residents 14 miles from Manhattan, where Thomas Edison invented the lightbulb, property taxes have risen 7.3% annually over the past decade to an average of $12,000 per home. That's 70% above the state's $7,000 average, itself the highest rate in the nation.

West Orange's town council is pushing to lift the rate another 6% this year to fill a $4 million budget shortfall. Joseph Krakoviak, a former *USA Today* reporter turned town blogger, ran for a council seat last month on a spending-cut platform. He was soundly defeated along with two other antitax candidates. That verdict came just one month after West Orange voters also rejected their own school board's budget, including pay hikes for teachers. Such inconsistencies are symbolic of the treadmill that towns like West Orange find themselves on.

"An assistant principal I know who earns more than $100,000 a year admitted he's having trouble making his house payment because his taxes are so high," says an exasperated Krakoviak.

On the state level, Stephen Sweeney, the Democratic senate president and leader of Iron Workers Union Local 483, is an unlikely fiscal reformer. Yet Sweeney fears that, with $46 billion in unfunded liabilities and a history of stiffing its pension fund, New Jersey might one day be unable to meet its benefits promises or will spark a financial disaster in trying to do so. Sweeney has been waging a campaign to scale back pensions and increase employees' contributions, including a hike from 5.5% to 9% in the amount deducted from teachers' paychecks to cover a portion of their generous benefits.

State unions countered with TV ads attacking the senator and hiring a plane to haul a banner reading "Stop Sweeney" up and down the Jersey shore. Protesters gathered outside his office donning hot dog costumes and carrying signs saying "Sweeney the Weenie."

In March Sweeney and his colleagues in the New Jersey legislature passed bills that boost the amounts government employees contribute to health care, limit pay for new hires and ban part-timers from drawing pensions. Governor Christie quickly signed the legislation into law.

"The government is good at telling the private sector what to do, but they [*sic*] don't like the rules applied to themselves," Sweeney says.

If only Washington were listening. F

TOP: MEL EVANS / AP; AP PHOTO / SETH PERLMAN

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- MONEY® magazine, January 2010

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*Summary prospectuses are not currently available for all funds.

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Slick Performance

BP Chief TONY HAYWARD thinks the Gulf spill might help the oil industry. Could he be right? By Christopher Helman

DESPITE THE DEATH THREATS, BP Chief Executive Tony Hayward says he's sleeping well these days. He looks it: fresh, almost relaxed in his makeshift corner office at BP's emergency response center in Houston. He insists the company has been "extraordinarily successful" in its response to the spill, which so far has dumped more than 100,000 barrels of oil into the Gulf of Mexico since Apr. 20, threatening tourism and fishing from Florida to Texas. By mid-May 13,000 workers and 500 vessels were trying to contain the giant leak. Leaning back in his chair, Hayward compares the operation to D-day. He quotes Winston Churchill: "When in hell, keep going."

Not that he has a choice. Before the first failed effort to cap the petro geyser BP faced an ocean of problems. A group of 200 plaintiffs' attorneys met in New Orleans on May 6 to join forces in suing the company. Senator Barbara Boxer (D–Calif.) called for a permanent drilling ban off the West Coast. BP's shares took a deep dive, dropping $25 billion, despite $6 billion in first-quarter earnings, double the results of a year ago.

Hayward gropes for an upside. "Deepwater drilling will be transformed by this event," he says. "If we can win the hearts and minds of the communities that are impacted, then we have the potential to enhance our reputation rather than have it damaged."

Delusional? Experts agree the industry will change in the wake of the disaster. "Regulations have not kept up with technological change," says Beverly Sauer, professor at Georgetown's McDonough School of Business. She sees it swinging back. For 20 years the oil industry has pushed farther offshore, drilling 14,000 wells in water depths of more than 700 feet, into ever trickier reservoirs, with higher pressures and temperatures (and very few serious accidents). Something bad was bound to happen.

Yet, despite the environmental damage this spill continues to cause, offshore drilling will not go away—just as Exxon's *Valdez* disaster hardly stopped the shipping of oil by sea. The deep water (2,000 feet or more) gives up 1 million barrels per day from the Gulf of Mexico, 20% of U.S. oil output. By 2015 it could rise to 30%, reports IHS-CERA.

If there's any upside, it's that the industry's best talents are working together. At BP's response center, 470 engineers and managers from 70 companies, including ExxonMobil, Shell, Chevron and Petrobras, as well as government agencies, work 12-hour shifts around the clock. One room monitors marine traffic around the spill site; others are dedicated to plugging the hole by several means known as Top Hat, Junk Shot, Top Kill. Maps and schematics are on every wall; ideas and action items line each whiteboard. In one darkened room a wall-size screen shows video from the robotic submarines prowling the wreckage; as a worker on a ship changes out tools on the submarine's robotic arms, an engineer talks to him, watching him live. Food is constantly replenished; masseuses give backrubs.

The Gulf Coast was already reasonably well prepared for a calamity. Within 24 hours there were 32 response vessels, 1 million feet of containment boom and six fire-fighting ships on the scene. The industry promises to get even better. New redundancies for blowout preventers will be mandated by law, including radio-operated valves. Drilling contractors will see greater government oversight—as well as a more muscular U.S. Minerals Management Service—perhaps even over standardized techniques for casing and cementing ultrahigh-pressure wells. Already, BP has implemented more expansive testing for blowout preventers at all its deepwater sites, and Hayward promises more intense scrutiny of contractors like Transocean (which, sources say, BP will likely sue for gross negligence).

But push Hayward—or officials at other oil companies—for specifics and they say it's too soon to tell, since they still don't know

JOSHUA ROBERTS / BLOOMBERG

Her grandparents shopped using a catalog. Her parents shop online. How will she shop? The answer may very well come from Iowa. Innovation just comes naturally here. We've attracted more than half-a-billion dollars in information technology investments. And being ranked as the second most livable state in the country* has also helped Iowa land facilities and operations from IBM and Google. See more of how Iowa's economy is changing lives and information technology at lowalifechanging.com.
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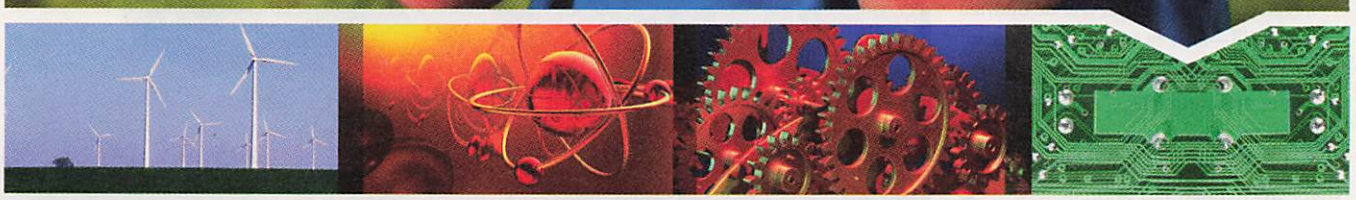
*Congressional Quarterly Press, 2009.



LEADING THE WAY IN RENEWABLE ENERGY, BIOSCIENCES, ADVANCED MANUFACTURING AND **INFORMATION TECHNOLOGY.**

what went wrong with the Deepwater Horizon. They also fear going public with plans to change standard operating procedure because that might imply bad practices in the past—catnip to regulators and lawyers.

With 40 new deepwater wells being drilled in the Gulf at $100 million a pop, the world "needs to come to the realization that this is an isolated incident," says Matthew Beeby, analyst at Global Hunter Securities. Though the Department of the Interior put a temporary ban on starting new wells until May 28, "a longer-term limit on deepwater wells would be ridiculous," says Beeby, and would cause immediate financial pain for Transocean's rivals like Ensco, Noble and Diamond Offshore.

Georgetown's Sauer says the real problem is that BP and its partners thought they had risk under control—the way Wall Street's bankers did. "A fire alarm in the kitchen is not just a call to dinner," she says. To fix this collective failure of markets and government, we need a public-private partnership to ensure that enough ships, booms and dispersants are at the ready wherever drilling is under way. Hayward doesn't disagree: "Good new regulation should introduce subsea response capability, require greater redundancy in safety systems and focus on risk reduction."

Hayward, 52, has been with BP since 1982, served as Sir John Browne's right-hand man and became head of exploration and production before taking over in 2007 from Browne, who was felled by personal scandal following the catastrophic refinery explosion in Texas City in 2005 and the Prudhoe Bay pipeline spill a year later. Given the latest comeuppance, you might expect a little more humility from Hayward. Nothing doing. "The company is much better able to sustain this sort of incident than it could possibly have been able to three years ago."

His legacy, he knows, will be defined by the spill—and how quickly it's contained and cleaned up. "I'm not interested in being an iconic CEO," he says. "Once things turn around I will disappear again." For a lot of people, particularly in the Gulf, that can't happen fast enough. F

Congrats—Now What?

With unemployment at 9.9%—and underemployment (people who work part-time and wish to do more, as well as those who have stopped looking) at another 7.2%—it's a scary time to leave college. Short of moving in with Mom and Dad, what are this year's 1.6 million folks with new B.A.s to do? If you're thinking about grad school, consider which degrees are best and worst, based on salaries and job prospects. For info on more programs and first-person accounts from students and recent grads, visit www.forbes.com/degrees. *—Kurt Badenhausen*

GRADUATE PROGRAMS THAT PAY

There is career life out there—especially for kids interested in the sciences and math (thank you, ObamaCare and the Wall Street recovery). As for some softer master's degrees, go ahead and pursue them for love, if not money.

RANK	DEGREE	PROJECTED JOB GROWTH[1]	MIDCAREER MEDIAN PAY
	BEST		
1	PHYSICIAN ASSISTANT STUDIES	39%	$98,900
2	COMPUTER SCIENCE	27	111,000
3	CIVIL ENGINEERING	24	98,700
4	MATHEMATICS	22	96,900
5	PHYSICS	16	110,000
	WORST		
26	FINE ARTS	12%	$63,900
27	COUNSELING	17	53,500
28	EDUCATION	14	59,600
29	ENGLISH	9	61,700
30	DIVINITY	13	54,200

Master's degrees ranked based on median pay, projected job growth and replacement needs for common jobs of graduates with that degree. [1]Ten-year projected increase in common jobs of graduates with that degree.
Sources: Payscale; Bureau of Labor Statistics.

MARIO VILLAFUERTE / GETTY IMAGES

Count on us.

For the last year, the nation's attention has been fixed on reforming our healthcare system. On behalf of our nearly 100 million members, Blue Cross and Blue Shield companies are committed to working with the Administration and all other parties to implement this new law.

As we have done throughout our 80-year history, we will continue to help people navigate the healthcare system, especially at this time when many people are confused and unsure of what reform means to them. Being a part of the Blue Cross and Blue Shield family is about so much more than a simple membership card. It is a commitment to service excellence, regardless of where you live or what kind of health plan you have. It is financial security in times of healthcare necessity. It is investments in the communities where you live, work and play.

While our nation may have new healthcare laws, much work remains. We need to build a better healthcare system where people live healthier lives. We must make fundamental changes to how care is delivered so that people don't just have access to care, but that everyone receives the highest quality care. And we must address the rising cost of healthcare and bring spending in line with costs in other areas of our economy.

With the help of the nearly 15,000 doctors and nurses that serve integral roles within our health plans, Blue Cross and Blue Shield companies will continue to take a leading role in defining the future of healthcare in America.

At this moment of change, our members can rest assured that we will remain true to the heritage that always has differentiated Blue Cross and Blue Shield companies. In that spirit, we are committed to moving forward and helping make the legislation work for all Americans.

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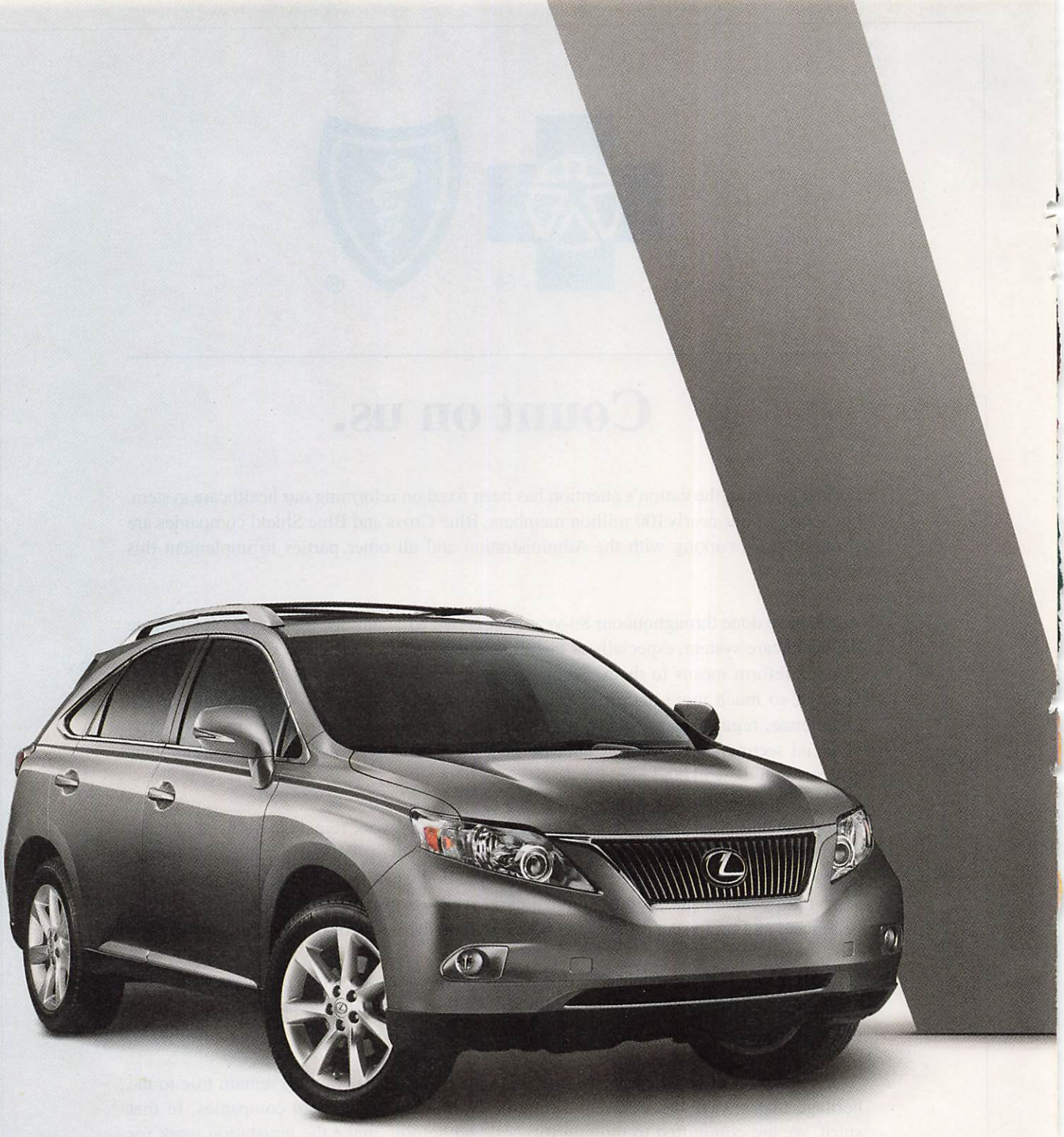

2010 Lexus RX FWD

A Consumers Digest Best Buy: no

Powertrain Warranty: 70,000 miles/6 years*

Seating Capacity: 5

Turn-by-Turn Navigation: optional

Remote Door Unlock: not available

*Whichever comes first. See dealer for limited warranty details. **Visit onstar.com for details and system limitations.

2010 Buick Enclave FWD

A Consumers Digest Best Buy: yes

Powertrain Warranty: 100,000 miles/5 years*

Seating Capacity: 8

Turn-by-Turn Navigation: OnStar®/1 year standard**

Remote Door Unlock: OnStar/1 year standard

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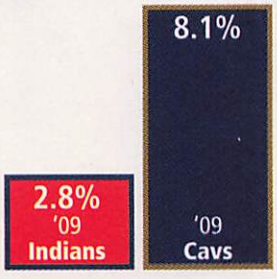
The LeBron Effect

Everyone in Cleveland hopes NBA star LeBron James, who just completed the last year of his four-year contract extension, re-signs with the Cavaliers. Okay, probably not everyone. Baseball's Cleveland Indians discovered long ago that sharing a small town with a larger-than-life star means permanent understudy status, with real financial consequences. Consider these telling statistics: *—Tom Van Riper*

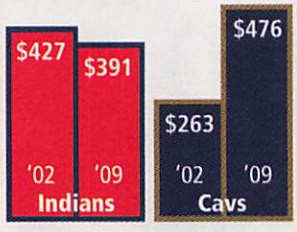
Attendance (Before LeBron)
Until the arrival of King James in 2003, the Indians often filled their 45,199-seat ballpark, then named Jacobs Field.

Attendance (After LeBron)
But in the years since, the box-office balance has shifted to the Cavs and their 20,562-seat arena.

TV Ratings
Average percentage of Cleveland households watching games in 2009.



Team Values (in millions)
Since 2002, FORBES estimates, the Indians are worth 8% less (inflation adjusted). The Cavs? They're 80% more valuable.



EQUITY TRADING

Get the Clob

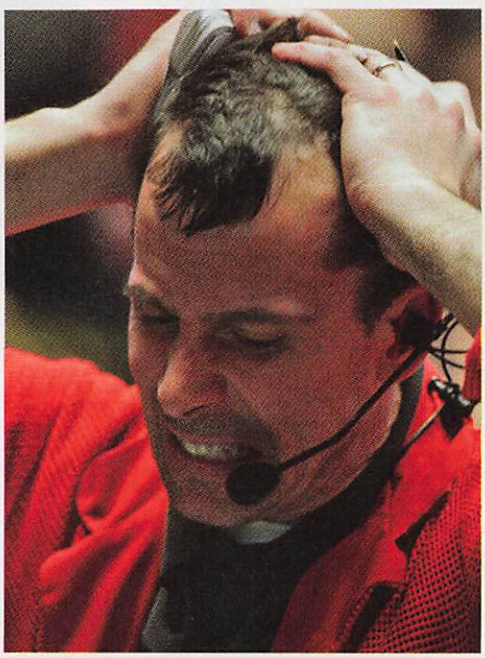
The fragmented state of equity markets may not have caused the May 6 stock plunge, but it did worsen things. One controversial remedy: a national book of all buy and sell orders.

By Liz Moyer

THE 998-POINT DIP IN THE DOW JONES industrial average on May 6 was scary enough. Even more unsettling is the fact that days later market overseers at the Securities & Exchange Commission and elsewhere are still scratching their heads over the precise cause—and remedy.

It's a dilemma that George U. (Gus) Sauter, chief investment officer at Vanguard Group, has spent a lot of time pondering. His solution: Go back to the future by building a central limit order book. The Clob, as the concept is known, has been around since the 1970s. It was seriously considered as recently as 2005 but then shot down by officials at exchanges and alternative trading sites, who argued it would cost too much and kill competition among electronic markets.

For market centers a Clob no doubt poses a threat. For investors, it might help reduce the sort of irrational volatility that shook markets last month.



A big part of the problem is that, unbeknownst to most investors, equity trading has changed dramatically the past few years. Gone are the days when individuals, or their proxies at fund firms, dominated the action. Nor is it proprietary trading desks at the big wire houses that are doing most of the buying and selling.

Instead, so-called high-frequency traders at hedge funds and elsewhere are in the driver's seat, accounting for 60% of equity volume on an average day as they flood the market with thousands of orders a minute. Under current National Market System rules, the New York Stock Exchange, Nasdaq and upstart exchanges like Bats Exchange and Direct Edge must send orders wherever the best price is posted—even to rivals.

The trading venues have no such obligation to fill bids or offers lined up behind their best quotes. For example, a trader sends an order through Nasdaq's Inet to sell 10,000 shares of IBM. NYSE is quoting the best price at $132.10. So Inet has to fill what it can there first. But it's possible that the remainder of the order could be filled at $132 on Inet despite there being a bet-

TOP LEFT: GREGORY SHAMUS / GETTY IMAGES; BOTTOM: KIICHIRO SATO / AP

THE PRIVATE BANK

WELLS FARGO

I captured the power of an idea

and built a company around it.

I've always been geared for success,

but I never realized

how complicated it could be.

I need someone who knows

what it's like to be me.

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EQUAL HOUSING LENDER

ter quote of $132.01 in the NYSE's queue. Or the order could sit a few seconds, as an arbitrage trader takes advantage.

Fewer and fewer professional traders are willing to post limit orders (those stipulating a specific price). That's because the high-frequency crowd is constantly probing the market via "indications of interest," which help it sniff out supply and demand without obligating it to act on it. In such an environment, posting a limit order is tantamount to showing a rival poker player your hand. Once so armed, the high-frequency shops use sophisticated algorithms and souped-up computers to capitalize on transitory market moves.

Making it mandatory for exchanges to centralize their limit order books would allay some traders' concerns because it would sharply increase their chances of having orders filled, Sauter says. As is, with limit order books segregated at individual exchanges, liquidity is sometimes scanty and, as happened on May 6, can quickly dry up completely.

When Sauter is buying IBM, he's likely to be in the market for many thousands of shares at a time (for giant index funds). He chops up his trades and sends them out via a computer that can detect where the best prices are and move swiftly to fill them.

Sauter, of course, is a big investor whose orders can move prices. For most individuals such market impact costs are not an issue, and limit orders often make sense. Say IBM is quoted at $132.10 ask, $132 bid. You want to buy 1,000 shares and are willing to pay $132.05. Put in that limit order. You'll jump ahead of the existing $132 bid and likely get it filled. If you fail to do so in a minute or so, cancel the order. Otherwise, you'll be giving the pros a free put option the next time the market is heading lower still. Put in a market order, by contrast, and you'll end up paying a nickel more, or worse if the market moves against you.

Under current conditions computerized trading has created a market that, with 10 billion shares trading hands on an average day, appears to be a mile wide. In truth, though, it also can be only an inch deep, as the world discovered on May 6, when buyers vanished during the chaos. What trading did occur did so largely in nonpublic "dark pools," which match bids and offers for large institutions, or via "stub" quotes, which marketmakers post far outside the expected trading range to fulfill liquidity obligations.

In Sauter's view a Clob would help prevent liquidity from drying up by sending limit orders all over the country into a single book.

"When you fragment liquidity, it can be eaten up quickly," he says. "A Clob would have alleviated some of the problems on May 6 by bringing all the liquidity together in one place."

It's not a solution that's likely to go down well with many of the big exchanges. But if SEC Chairman Mary Schapiro wants to prove herself an investor advocate, Gus Sauter, with his command over $1.4 trillion in investor assets, is well worth a listen. **F**

The Perk Game

Chief executives have their own styles, of course—and that goes for the types of perks they prefer. We've listed four perks below, along with pictures of the bosses. See if you can match who got what. We compiled this data with the help of Footnoted.org, a Morningstar unit. We should note that many of the more egregious perks are fading away under rules passed in 2006 that require public companies to spell out all the ways they pay their senior executives. But not all executives have gotten the message. *—Daniel Fisher*

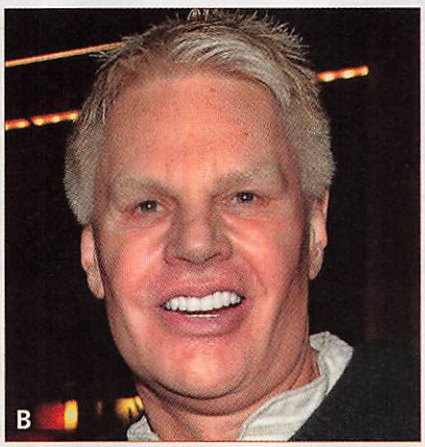
1. $2.45 million in personal security, $118,000 in jet travel and leasing his twin 747s for $6 million last year.

2. $391,000 a year for "personal financial planning."

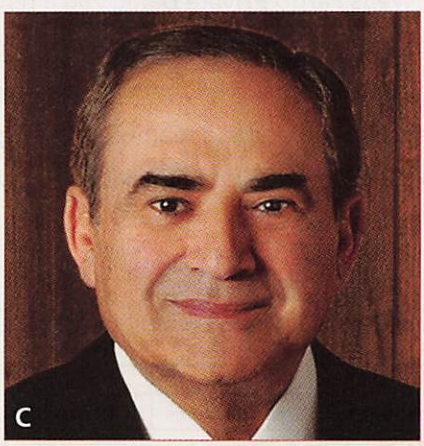
3. Paid $4 million for giving up unlimited private jet travel.

4. $2.6 million for upkeep of photogenic real estate and $49,440 for a "weekend driver."

Martha Stewart, Martha Stewart Omnimedia



Michael S. Jeffries, Abercrombie & Fitch



Ray Irani, Occidental Petroleum

Sheldon Adelson, Las Vegas Sands

CLOCKWISE FROM TOP LEFT: ALEX COLE / NEWSCOM; MICHAEL LOCCISANO / GETTY IMAGES; MUNSHI AHMED / BLOOMBERG; BLOOMBERG

ANSWERS: 1:D; 2:C; 3:B; 4:A.

"I have started businesses all over the world – in New York, San Francisco, Los Angeles, London and Prague. Louisiana is clearly a pro-business state, and New Orleans is a globally recognized brand. The talent and incentives are here, it's not hard to raise capital from here – and our employees love it here. It's a great place to launch a company."

NIC PERKIN President / The Receivables Exchange

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Lord of Liquidity

BARRY SILBERT makes markets in just about any kind of security. Facebook shares, anyone?

By Steven Bertoni

THE MORE FUNKY PRODUCTS Wall Street churns out, the more money Barry Silbert stands to make. But the 34-year-old Emory University graduate doesn't want to cater to the big investment banks; he wants to compete with them.

Silbert is the creator of SecondMarket, an electronic exchange that lists $30 billion worth of tough-to-trade assets, including restricted shares in public companies, collateralized debt obligations, auction-rate securities and bankruptcy claims. In 2009 SecondMarket, which Silbert launched five years earlier, collected $35 million in fees by connecting buyers and sellers and clearing trades. Silbert's fastest-growing market: shares of privately held technology companies such as Facebook and dating site Eharmony. SecondMarket started dealing private shares in April 2009 and executed $100 million worth in the second half of the year. This year Silbert predicts he'll trade $500 million.

That is, unless Congress has something to say about it. Securities law dictates that Silbert can service only responsible adults. That's defined as institutional investors and individuals with $1 million in assets. The Senate bill threatens to raise that threshold to $2.3 million—high enough to disqualify two-thirds of the people now qualified, estimates the Angel Capital Association. That would take a bite out of

DAVID YELLEN FOR FORBES

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SecondMarket's 13,000-member trading network. Other potential casualties: the thousands of startups that feast on funding from angel investors.

Silbert already has his own angels lined up. In February SecondMarket received $7.5 million in cash from Temasek Holdings (Singapore's sovereign wealth fund) and another $7.5 million from Li Ka-shing, Hong Kong's richest man (net worth $21 billion).

Silbert spent six grueling years after college in Houlihan Lokey's restructuring group, often jetting around the globe to clean up broken companies (including Enron) and sell off illiquid assets like patents, property and restricted stock. The money was good—Silbert peaked at $400,000 a year—but with no centralized exchange, the process was glacially slow. Trying to unload, say, restricted shares in a company emerging from bankruptcy could take two months and demand dozens of phone calls. More transparency, in the form of an Ebay-like electronic marketplace, might speed things up, thought Silbert. "People said I couldn't go against Wall Street and change the way something had been done for 50 years," he says. "That made me want to do it even more."

SecondMarket is a hybrid system. Sellers post their wares to a bulletin board, and an algorithm rifles through member profiles to grade buyers based on the type and volume of deals they've done or shown interest in. The strongest scorers get a call from a SecondMarket rep. Often the spread between the bid and offer is too wide to settle online. That's when one of Silbert's 35 negotiators swoops in. Once buyer and seller agree, SecondMarket hammers out the legal, clearing and payment issues and collects 2% to 4% of the purchase price.

One advantage Silbert has in this game: He's neutral. Investment banks like Goldman Sachs and Morgan Stanley may hold in their accounts the very assets they get paid to broker; banks also may have other business relationships with buyers and sellers. Silbert is a pure middleman. Unlike sellers on traditional stock exchanges, SecondMarket sellers often have a say over who can buy their shares. Members pay no annual fee to use Silbert's electronic platform and have access to primary documents like prospectuses.

EMERGENCY EXIT

Want out of a limited partnership? Here is how a trade on SecondMarket works.

STEP 1. A family needs liquidity, so it lists a $5 million limited-partnership stake on SecondMarket's website. It posts an offering price and investment details (including any future capital requirements), and faxes partnership documents to SecondMarket.

STEP 2. SecondMarket asks the general partner for permission to take the anonymous limited partner out of the deal.

STEP 3. SecondMarket scours its database of 2,200 active LP buyers. The most likely takers (hedge funds, pension funds and university endowments) are notified by phone or e-mail. The GP bars certain buyers from bidding. Bidders sign confidentiality agreements to protect partnership performance data.

STEP 4. A buyer enters a bid for $3 million. SecondMarket's negotiators help narrow the spread. Final price: $3.8 million. SecondMarket handles legal, tax and payment issues and collects $76,000 (2%) in commissions, split between buyer and seller. —*S.B.*

To get started in 2004, Silbert mined his Rolodex to raise $400,000. He and four employees leased a 250-square-foot office on the west side of Manhattan. Their equipment: two telephones, a Dell desktop computer and an Internet connection. That year the firm pulled in $1 million in commissions trading restricted shares; as the stock market overheated in 2007, revenue shot up to $5.5 million.

Venture firms came calling. FirstMark Capital paid $3.8 million for a 25% stake. Silbert had already shelled out $1 million to build an online platform to deal restricted stock. With the new money he hired eight developers to construct a flexible, Google-based system on which they could build a range of portals to trade new assets.

Silbert got a big boost in February 2008, when the market for auction-rate securities locked up, preventing investors from unloading these long-term bonds previously presumed to be as liquid as cash. After two sleepless weeks ironing out technical and regulatory wrinkles, Silbert opened an online market for auction rates. Executions soared, and fee revenue ran to $20 million for the year.

In 2009 Silbert created electronic platforms for trading limited partnership interests in hedge funds and private equity; then came mortgage-backed securities, CDOs and auto loans. Last April SecondMarket began brokering stakes in privately held firms, mostly young technology companies. Recently 250,000 shares of Facebook were offered at $59 apiece; the highest bid was $50. An owner of 100,000 shares in Eharmony wants $13 for each; highest bid, $11. The postings come from anonymous investors and insiders. To grow more quickly, Silbert aims to entice companies into offering biannual auctions to approved bidders—a cheaper way to raise money than issuing shares in an initial public offering.

Jeff Annison, cofounder of MobiTV, which puts live television on mobile phones, used SecondMarket to cash in $350,000 worth of his company's shares before starting his iPhone application developer, Underground Labs. "On paper I was a multimillionaire, but I was still paying off college debt," says Annison. "SecondMarket already had a slew of people looking for an opportunity like this on the buy side."

Silbert's powerful Asian partners have turbocharged the networking process, introducing him to bankers and government officials who are vital to ginning up clients and creating new markets. Shares of private companies are just the beginning. Now Silbert looks to broker pieces of Asian container ships and palm oil plantations. In two years he anticipates 25% of his revenue will come from Asia. Other markets on his list: Israel, Brazil and the U.K.

"It's all about changing the world's market structure," says Silbert. "There'll come a point when people will say, 'I'm not going to rely on my broker to get me the best price.' They'll go over here, where they can find 25,000 buyers for their asset." F

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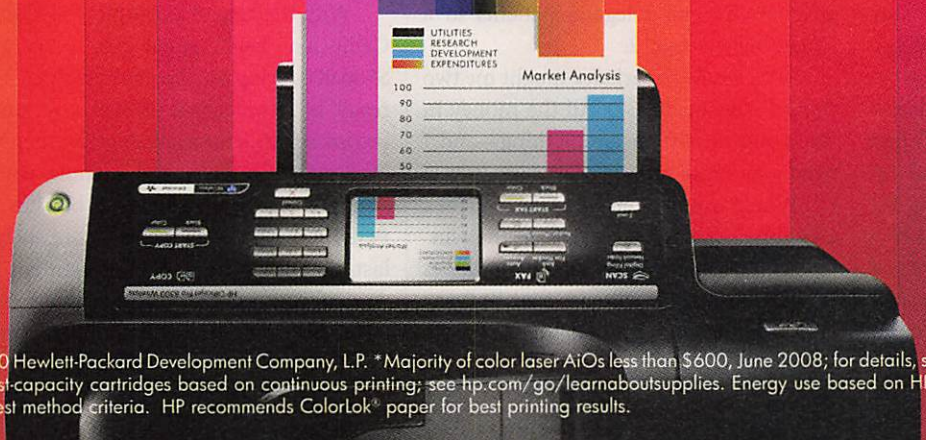

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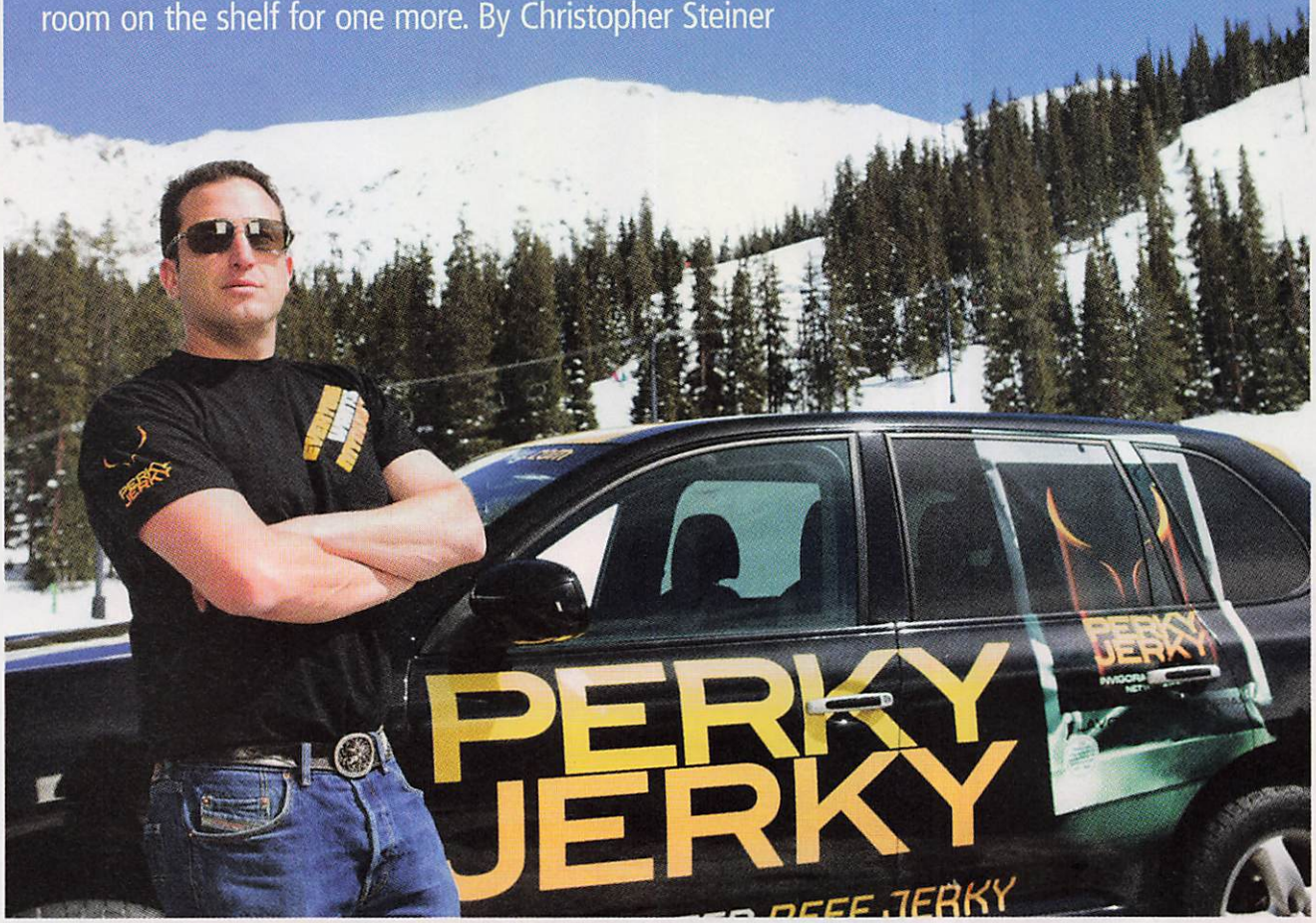
Beefed Up

In a world saturated with bizarre food brands, there's always room on the shelf for one more. By Christopher Steiner



Brian Levin devised a new brand of dried snack meat after an energy drink soaked his lunch on a chairlift.

BY AGE 33 BRIAN LEVIN HAD experienced a lifetime's worth of entrepreneurship. He had spent six years working for charismatic booze baron Sidney Frank, who later sold his Grey Goose operation to Bacardi for $2 billion. After that stint Levin helped build a service that sent snow reports to skiers' cellphones. Then he started the world's first text-messaging voting system, used on *American Idol*, selling the business for $15 million in 2004. Two years later Levin launched Useful Networks, which created local-advertising and friend-finding software, and sold it to Liberty Media for an undisclosed sum. Meanwhile, life at home had grown complicated. Levin had triplets, one of whom was born with Duchenne muscular dystrophy, a disorder that weakens muscles and relegates patients to a wheelchair by age 12.

"The whole experience taught me two things," says Levin, 37. "All the money in the world doesn't mean anything—and I need a lot more money."

Where would be the next place to seek a fortune? Serendipity struck in the winter of 2006 on a chairlift above the slopes in Snowbird, Utah, when a Red Bull energy drink exploded in Levin's backpack, soaking his lunch. Levin chowed down on soggy beef jerky that now came with a tangy kick. A new snack was born: caffeine-enhanced dried meat.

With the help of a contract food lab in California, Levin spent two years and $500,000 trying out dozens of recipes. The result is a confection of beef, soy sauce, brown sugar, lemon juice, garlic, pepper, Worcestershire sauce and guarana, which contains caffeine. The first batches of Perky Jerky hit convenience store shelves last August. The U.S. Department of Agriculture says that meat products can't be fortified with stimulants, but Perky Jerky

JOHN JOHNSTON FOR FORBES

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SMORGASBORD

Small food brands have scored big paydays thanks to hungry acquirers.

BRAND	BUYER	PRICE ($MIL)	DEAL DATE
HUMM FOODS	Larabar	General Mills	$55	2009
HONEST TEA		Coca-Cola	43 (40% stake)	2008
BEAR NAKED		Kellogg	122	2007
ENERGY BRANDS	Vitaminwater	Coca-Cola	4,100	2007
SCHARFFEN BERGER		Hershey	50	2005
GREY GOOSE		Bacardi	2,000	2004
ODWALLA		Coca-Cola	181	2001

Sources: Forbes; CB Insights.

says the guarana is used for flavoring.

To scale up, Levin went looking for outside capital. He found $1.5 million in three months. "In the worst economy in decades VCs were writing me personal checks after listening to me for 30 minutes," he says.

But hawking snack meat proved trickier than mobile software. Bigger brands, such as Oberto, Pemmican and Jack Link's, shelled out big bucks to snag space at grocery chains like Albertson's and Safeway. Smaller players abound: Some distributors carry as many as 15 brands. Levin's spirits bottomed out last September at the National Association of Convenience Stores convention in Las Vegas: "The whole show was normal jerkies, condoms, cigarettes and fake nacho cheese," he says.

Good news came a month later when a representative from Max Muscle, a health food store in Denver, called to say that outdoor-adventure and health food types were snatching up Perky Jerky. Soon after Sports Authority, the Englewood, Colo. sporting goods retailer with 460 stores, said it wanted to stock Levin's snack toward the checkout aisles near the Gatorade and energy bars. In January Sports Authority put Perky Jerky in 64 stores to coincide with Aspen's Winter X-Games, an ESPN-sponsored event geared toward the young, adrenaline-fueled crowd. It plans to sell the meat in another 240 outlets by September. The win attracted Hastings Entertainment—a book, video and music retailer with 160 locations across the Great Plains—which agreed to carry the jerky in its snack aisles. "It's something we feel is geared more toward the person with an active lifestyle than a normal jerky," says Dana A. Abood, Sports Authority's marketing manager.

Emboldened by the crowd's response to Perky Jerky's booth at the X-Games, in January Levin set up a tasting suite (a room in which celebrities munch and mingle) at the Sundance Film Festival in Park City, Utah. In June Perky Jerky will sponsor the Teva Mountain Games in Vail, Colo. Levin also plans to blitz the Hamptons in Long Island, N.Y. this summer with booths, free samples and roaming vendors.

Levin's skill with mobile software is coming in handy. In March he struck a deal with Square, a San Francisco company that makes a gadget that plugs into iPhones, transforming them into point-of-purchase credit card machines, to let students peddle Perky Jerky out of their dorm rooms. A few dozen students, who earn $1 on every $5 jerky packet, have signed up; Levin plans to recruit hundreds more campus closers in the fall, mainly through social media websites. Says Levin: "We're not going to outspend anybody or win the old-fashioned distributor game, so we have to get people asking for the stuff."

Perky's revenue was $400,000 for the 12 months ended in March, but sales for 2010 are on track to hit a few million. Levin expects to turn his first profit this year, too. Every package helps—a reason Levin now drives what he calls the Jerk Mobile, a Porsche Cayenne SUV plastered with Perky Jerky decals. Their slogan's subtle suggestion: "Everybody wants my meat." F

LAST YEAR ALONE CYBERCRIMINALS STOLE OVER $40 MILLION FROM SMALL BUSINESS BANK ACCOUNTS.*

"You don't want to spend years building your business just so a hacker can retire early."

Jamz Yaneza
Threat Research Manager
Trend Micro

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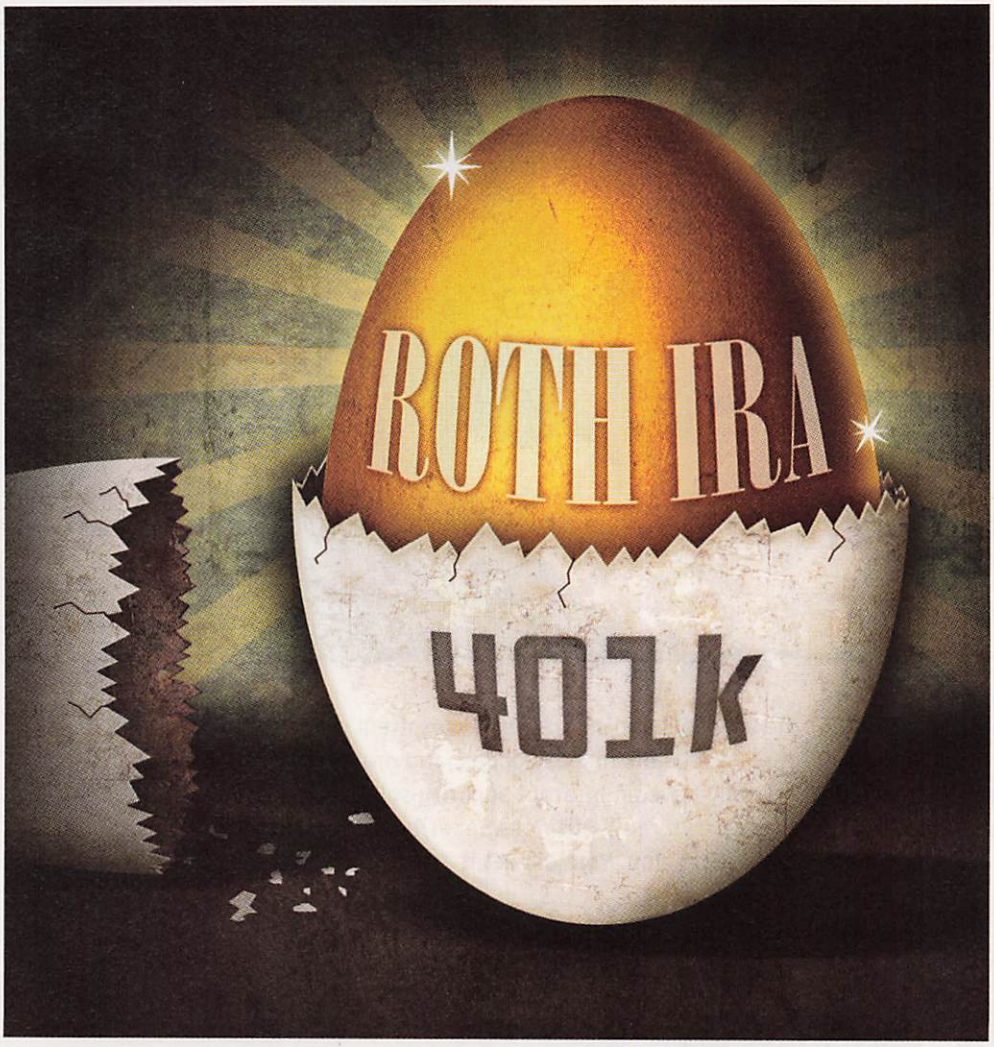
Rothify Your 401(k)

Got an ex-employer retirement account sitting around? You can convert it—and maybe your current 401(k), too—into a Roth IRA. By Ashlea Ebeling

ARE YOU ONE OF THE 15 MILlion Americans who has a 401(k) left behind with an ex-employer? Alternatively: Does your current company allow you to make "in-service" rollovers from its 401(k) to an individual retirement account? (Most employers do allow such rollovers for workers 59.5 or older, and a minority allow them for younger workers.)

Either way, you may have a tax-saving option you haven't heard about: converting an old 401(k) or part of a current one into a Roth IRA. Despite much recent hoopla about the new rule allowing anyone to convert a traditional IRA into a Roth IRA, a recent Fidelity Investments survey found 55% of affluent folks with orphan 401(k)s didn't realize they could convert them, too. As of Jan. 1 even taxpayers with income above $100,000 can do these conversions.



JOHN UELAND FOR FORBES

The basics of a Roth conversion—whether from an IRA or 401(k)—are the same. You declare the old account taxable, pay any income taxes due on pretax contributions and earnings, and invest the funds in a Roth, where all future growth is tax free. (In many cases the money can stay in the same securities without being cashed out and reinvested.) This maneuver often makes sense if you can pay the tax from nonretirement funds, expect your tax rate to be the same or higher in retirement and won't need the funds for a decade or more. A conversion is particularly attractive as a way to leave an income-tax-free inheritance to your kids or grandkids.

But converting from a 401(k) to a Roth can be an even bigger tax win than converting from one IRA to another—if your old or current 401(k) includes aftertax contributions, as some do. Federal "nondiscrimination" rules limit how much some higher-paid workers can put away pretax. So 5% of those earning more than $100,000

contributed aftertax money to their 401(k)s last year, according to a Hewitt Associates survey.

Here's where a 401(k) conversion has an edge: If you have multiple IRAs and are converting just some of the money, Internal Revenue Service rules say the amount you convert must be drawn proportionately from the pretax and aftertax dollars in all your IRAs. But if you convert a 401(k) directly into a Roth IRA, you disregard your other 401(k)s and IRAs in determining the percentage of the conversion that's taxable. Say you have $100,000 in pretax IRAs and $20,000 in an old 401(k), with half of that aftertax contributions. You can roll the whole $20,000 401(k) into a Roth, recognizing just half—$10,000—as income. By contrast, if you had previously rolled the $20,000 into a traditional IRA, the tax rules would treat you as having one big $120,000 IRA, with $10,000 in aftertax contributions. So 11/12 of any conversion would be taxable.

You may have a tax-saving option you haven't heard about: converting an old 401(k) into a Roth IRA.

If you can tolerate added complexity and some uncertainty, there are even ways to convert only that $10,000 in aftertax money to a Roth. On his website, www.fairmark.com, Chicago tax lawyer Kaye Thomas describes five strategies advisors have promoted for doing this. He says two—including the simplest one of withdrawing only aftertax dollars from a 401(k)—have been nixed by the IRS, two others "appear to work" and a fifth is "problematic." Thomas suggests taxpayers who want to try this get a tax pro's help and also consider whether they might benefit from skipping these maneuvers and converting pretax dollars as well. "There are a lot of people who could benefit from conversions who aren't doing them," he observes.

So is your 401(k) eligible for conversion? If you've left the employer where you established a 401(k), you can almost always do what you want with it—move it to a new employer's 401(k), cash it out, roll it into a regular IRA or convert it directly into a Roth IRA.

As for a 401(k) at your current job, the answer varies. Once you reach age 59 1/2 the tax law permits you to roll all your money from a current employer's 401(k) to an IRA without penalty. Employers don't have to allow this in-service rollover, but most do, even if they don't advertise the option. (Some allow you to roll your own contributions but not their match or profit-sharing contributions.)

A lucky minority of younger workers also have an in-service rollover option. The Profit Sharing/401(k) Council reports that 29% of big companies have adopted an IRS-blessed provision that allows younger folks to do in-service rollovers of their aftertax, employer-match and profit-sharing contributions, as well as any money rolled over from a previous plan, but not of their own pretax contributions. (Unfortunately, Thomas warns, the IRS treats the distribution as if pretax contributions were distributed, too.) Frank Palmieri, an employee-benefits lawyer in Princeton, N.J., says small companies have started amending their plans to allow this, too. "Somebody high up the food chain has to come up to human resources and say, 'I want this done,'" he observes. So it helps if the boss himself wants to do a Roth rollover.

If you think you might benefit from a 401(k) Roth conversion, look into doing it this year. Tax rates are likely to go up in 2011 for those earning $250,000 or more, making a conversion this year cheaper. Taxpayers in lower tax brackets, in contrast, may want to take advantage of the provision allowing income from 2010 conversions to be split and reported on 2011 and 2012 tax returns.

Meanwhile, yet another option for converting current 401(k)s could be coming. Legislation pending in Congress would allow you to convert money in your traditional pretax 401(k) into a Roth 401(k) at your job, assuming the plan offers a Roth option. As with any other conversion, you would pay taxes now—so the provision is projected to raise $633 million for Uncle Sam over the next ten years, even if it loses tax money in the long run. In shortsighted Washington that increases the odds it will pass. F

Behind The Velvet Rope

Mutual fund outfits are selling the glamour and mystique of hedge fund strategies. You'd be better off with a plain old balanced fund.

By David K. Randall

THESE ARE TRYING TIMES FOR mutual fund managers. In the wake of the biggest stock market plunge in generations, investors yanked $1.6 trillion out of equity funds over the past 24 months, according to the Investment Company Institute. Much of it went into far less lucrative bond or money market funds or—horror of horrors—into government-insured bank accounts.

What's a fund company to do? Pander to investors' suspicion that rich people, the ones allowed into hedge funds, have access to superior moneymaking techniques. Hence the fad of the moment: publicly available funds that pursue hedge-fund-like strategies. Marketed under monikers like absolute return, market neutral and equity long-short, such funds aim to earn positive returns regardless of how the stock market fares.

Achieving such feats is, of course, a tricky business. These funds often short stocks, speculate on currencies, own bonds and borrow money to amplify their bets. Old Mutual Analytic, a $95 million (assets) fund, is one such example, promoting itself as aiming to "pro-

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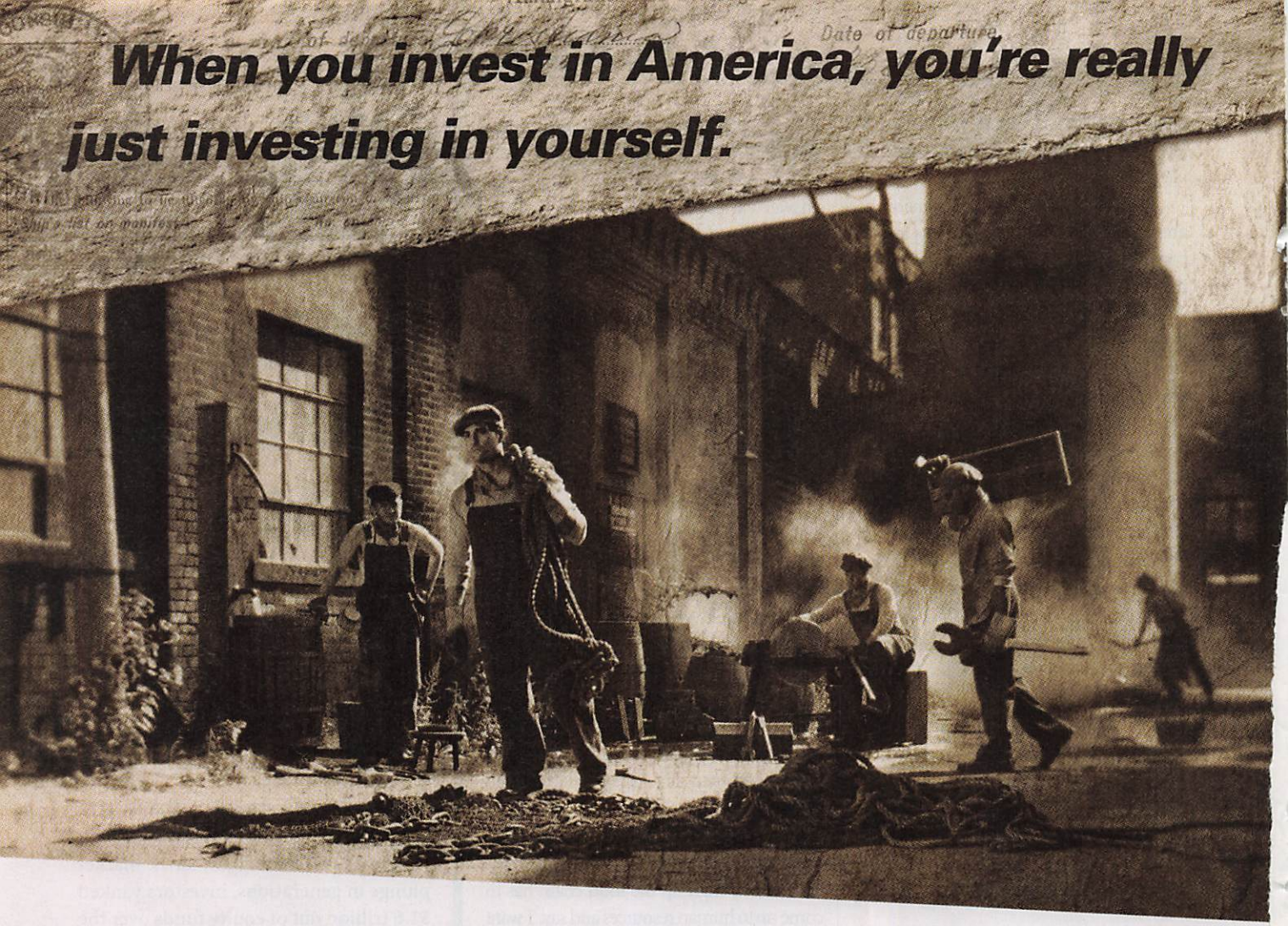

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vide investors with greater long-term total return and smaller fluctuations in quarterly total return than would be realized if the same fund were unhedged."

That's the plan, anyway. Old Mutual investors have lost 15% of their money over the last five years, versus a 2% gain for holders of the S&P 500. April wasn't any better, with an ill-timed bet against Apple Computer contributing to a 4% decline in Old Mutual.

Unsuccessful as fund manager Dennis Bein has proven, his services haven't come cheaply. Old Mutual Analytic lops off 1.8% of assets a year in fees and overhead. That's a bit above the 1.7% average for the category and considerably more than the 1.3% average charged by all actively managed equity funds. Old Mutual's fees come on top of the trading costs and tax liabilities Bein rang up turning over its portfolio every six months. (The quoted performance is after expenses and trading costs but before taxes.)

Returns aren't much better for the broader segment of mutual funds in the business of selling themselves as hedge funds. All told, 106 such funds, with $37 billion under management, were on the market in April. Over the past five years they have returned 2.6% annually on average, according to Lipper. That compares with a 2.8% annual return for the S&P 500 and 5.4% for the Barclays U.S. Aggregate Bond Index.

If you want to hedge your exposure to stocks, a good way to do it is to buy a balanced fund, mixing stocks and bonds. But then balanced funds have been around for about a century, and they are very boring. A competitive vendor would have a hard time collecting a 1.8% annual fee on one.

"Funds are out there pretending you can enhance safety without giving up any meaningful upside."

Do absolute return, market-neutral and long-short mutual funds offer enough protection in bear markets to make up for their lagging performance during recoveries? No, according to an analysis by professors Jingzhi Huang of Penn State University and Ying Wang of State University of New York, Albany.

Not even Vanguard Group, the usually sober low-cost leader, has had much success in this category. Its Vanguard Market Neutral fund tries to mimic the return on three-month Treasury bills but lagged its index by 2.4 percentage points a year over the past half-decade, according to Morningstar.

"These funds are nothing more than an advertising gimmick," says Mercer Bullard, a securities law professor at the University of Mississippi School of Law and a fund industry expert. "Whenever there are steep market losses, a popular response is to have principal protection, and absolute-return funds are out there pretending that you can enhance your safety without giving away any meaningful upside."

Here's a better idea: Decide what portion of your financial assets it makes sense to hold in stocks over the next three decades and then rebalance annually to maintain it. Put the rest of your investments into low-cost bond, cash or commodity mutual funds or exchange-traded funds. If this presents too much of a psychological challenge for you, then buy a cheap balanced fund and don't touch it. **F**

HIGH-PRICED HEDGE

Fund firms are selling hedge-fund-like mutual funds that aim to limit losses in any market. For investors, a mix of stock and bond funds would have fared better the past five years.

FUND CATEGORY	TOTAL RETURN 5-YEAR ANNUALIZED	FEES PER $100
HEDGED FUND	2.6%	$1.70
BALANCED FUND	4.1	0.25
S&P 500	2.8	0.09
U.S. BOND MARKET	5.4	0.22

Performance through Apr. 30.
Sources: Barclays Capital; Dow Jones; Lipper; Schwab; Vanguard.

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Bird-Watching

A South African town offers a lesson in financial history and a look at one of nature's oddest species.

By Susan Adams

YOU KNOW THE HOUSING BUBBLE, the dot-com bubble and perhaps the tulip bubble. But what about the feather bubble of 1913?

Journey to Oudtshoorn, a dusty South African town 270 miles east of Cape Town, and learn about this little-known episode. At the same time, experience the largest population of outsize birds that produce extraordinary feathers, lean meat and distinctively bumpy leather.

Native to South Africa, ostriches long roamed a vast semidesert plain called the Karoo. There, beginning in the 1860s, farmers raised the creatures for their plumes. As belle époque fashions grew in popularity, so did the ostrich-raising business. Feather prices tripled over a two-decade period starting in the 1890s.

By the market's peak in 1913, a single plume might fetch 12 pounds, the price of a steamship ticket from England to South Africa. Oudtshoorn farmers built grand homes along the town's main thoroughfare, and the number of ostrich farms ballooned. Soon after, with the advent of war and then the streamlined flapper look, feather prices crashed. Bankruptcies and suicides ensued. Farmers opened their gates and let the animals run free.

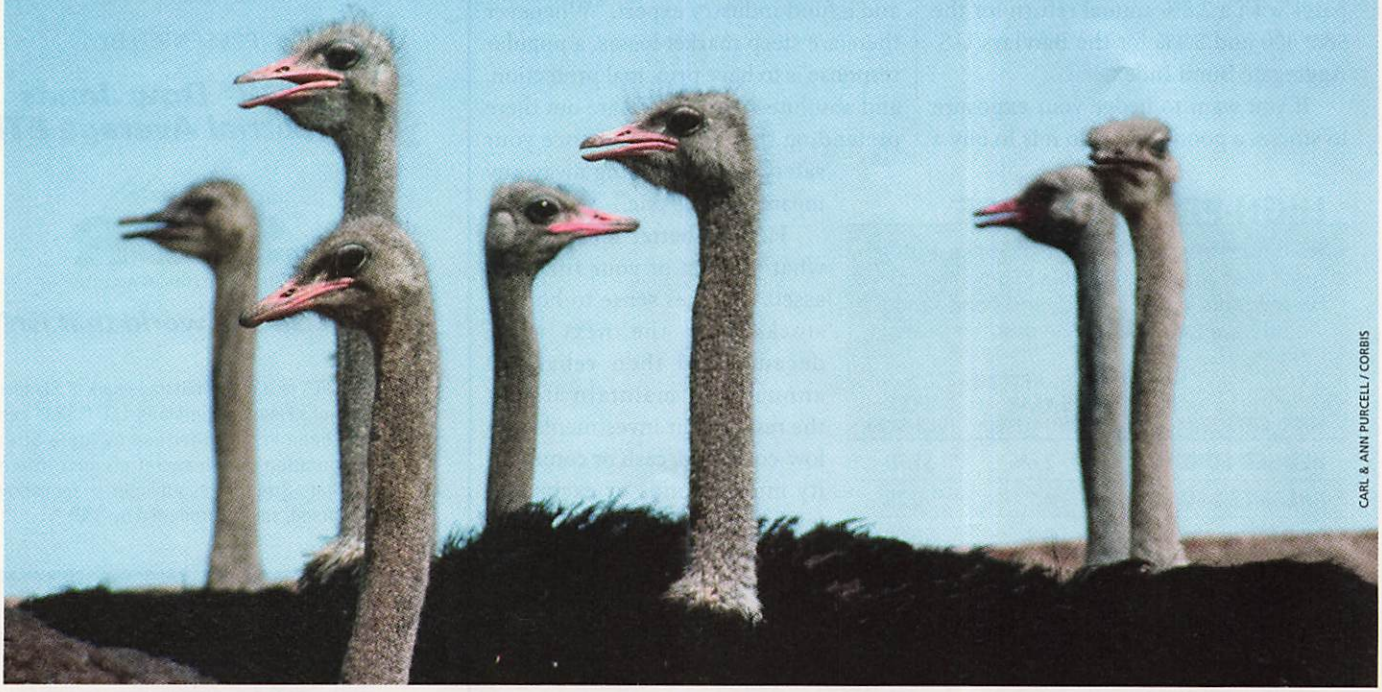
Oudtshoorn fell into a two-decade-long decline. Then boots and accessories made of sturdy ostrich leather came into fashion. In the 1940s a group of farmers and speculators set up a cooperative, building an abattoir that produced both meat and leather. By the 1960s these farmers had opened separate farms to the public and introduced a couple of gimmicks, like ostrich races and riding.

Today Oudtshoorn provides an intriguing destination for travelers interested in more than South Africa's coastline and safari parks. You can feed the monsters by hand, stand on their giant eggs (which won't crack under a 250-pound human's weight) and visit the craftsmen who make feather dusters.

From afar the creatures appear gawky and unsettling, with their long, scrawny legs, puffball bodies and impossible necks. But up close the huge eyes framed by 3-inch lashes seem endearing. Still, don't cross an angry ostrich in the wild. Their dinosaur-like talons can rip a human body open with one strike; they've been known to do so with lions. Males can do 50 miles an hour.

Ostriches range from 6 feet to 9 feet tall, and when you sit on a bird's back you're about 4 feet off the ground. This is an unexpected experience, as you tuck your legs under their wings and spread the velvety plumes across your lap. Handlers calm the animal by draping a cloth over its eyes as you mount. The bird struts around a pen with a jerky gate that is both awkward and thrilling.

There's another chapter to the ostrich business story, told entertainingly in *Dreambirds: The Strange History of the Ostrich in Fashion, Food and Fortune* by South African native Rob Nixon. In the 1980s an ostrich bubble blew again, this time in the States. Congress had banned imports from apartheid South Africa, including ostrich skin, which meant breeding pairs fetched as much as $80,000 in places like Willcox, Ariz. Promoters promised riches from the leather and from the healthful, flavorful meat. But apartheid and export restrictions soon ended. Eventually the public got wise to the Ponziesque flavor to ostrich farming: You couldn't cover your costs selling meat or hides, so your only hope was to sell breeding pairs to bigger fools. F



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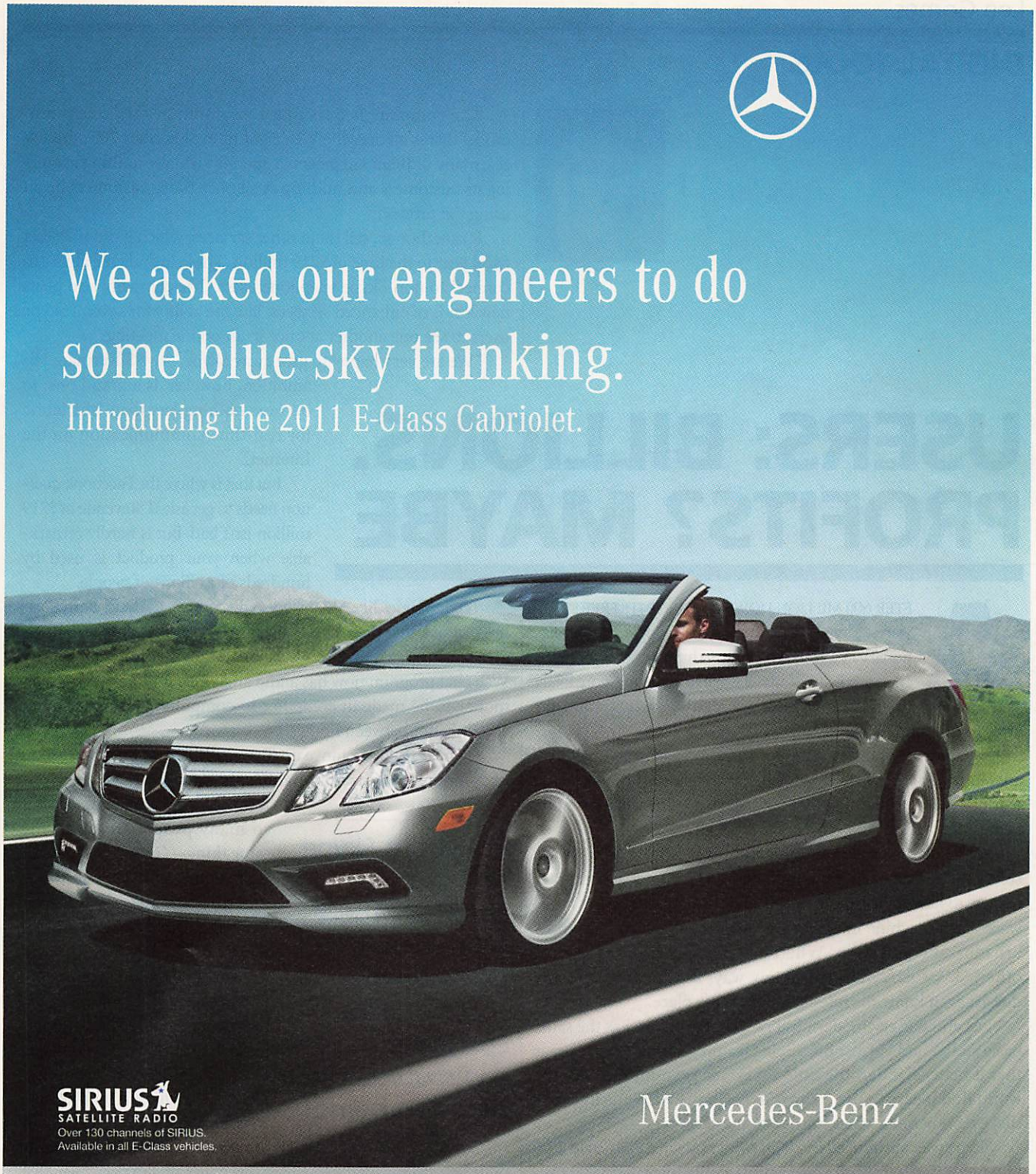
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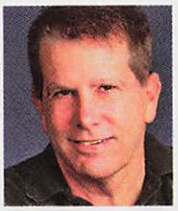
Lee Gomes



USERS: BILLIONS. PROFITS? MAYBE

AFTER 600 MILLION DOWNLOADS OF ITS FREE SOFTware, "Skype" is ready to join "Google" in the dictionary as a verb. Meaning: to have a computer video chat, totally free, anywhere in the world, more likely than not involving grandchildren living too far away to visit in person.

For students of the technology business, "to Skype" may help answer the Facebook question, which still haunts the technology world: What is something that can't make a lot of money, despite being wildly popular?

While Skype certainly doesn't put it this way, its software solves the easiest part of the problem of allowing two computer owners to have a picturephone talk. The difficult part is the hardware: Each machine must have a Webcam, a microphone and a broadband connection. When two people are Skyping each other, Skype isn't involved in any way; in fact, the company doesn't even know the interaction is taking place.

Just about every modern Internet chat program has the same basic audio- and videoconferencing features, though Skype brags that it better handles the little things, so grandmothers of the world find it easy to use. (The software has a winsome interface that even my mother has learned to master.)

Skype was introduced in 2003; two years later Ebay paid $2.6 billion for it. After much crow-eating, in the form of a $900 million writedown, the auction company last year sold a majority share to a group of private investors. Some messy lawsuits involving patents have since been settled, and Skype's new owners are busy building the company.

Skype was initially limited to audio, and it first became popular overseas, since it allowed free phone calls. When it added video it began to take off in the U.S., which Skype Chief Executive Joshua Silverman somewhat facetiously says is still an "emerging market" for him.

The company is pursuing a variation of the "freemium" model that is all over the Web right now. Skype has 700 employees, many of them engineers. It spends virtually nothing acquiring its customers and nothing at all once those customers begin using the product.

It can, though, sell them other services, which it did in its last fiscal year to the tune of $719 million. These include the ability to connect to non-Skype telephone users. The company also plans new kinds of enhanced services, like the ability for several Skype users to see one another at once in an online meeting.

"We are very happy to give away Skype," says Silverman. His ambition, however, is a grand one: to become nothing less than "the fabric for real-time communication on the Internet."

But that is where the Facebook question needs to get asked. Revenue of $719 million isn't bad, but is hardly remarkable when your product is used by hundreds of millions of people.

Technologies like Skype are so disruptive, as they say in business school, that they tend to destroy the very economics of their own business. Thanks to Skype and its many imitators—every Web chat program now has audio and video built in—there is no money to be made in computer-to-computer communications, certainly not between homes.

Skype is trying to move up the value chain, to the intersection of computers and traditional telephones as well as to various forms of Web conferencing. But so many people are up to the same thing—Google included, at some point—that it's hard to see how those businesses won't soon have the value sucked out of them as well.

Thanks to Skype and its many imitators, there is no money to be made in computer-to-computer communications between homes.

The irony stares you in the face, just like a Webcam. Silverman brags, entirely correctly, that Skype is ushering in an entirely new form of "ambient communications." There are soldiers in Iraq, he says, who Skype with their family in the evening, both sides virtually puttering around, doing the same sort of nothing in particular, that they would be doing if they were together physically.

TV manufacturers know this is going on. Many of them are adding Skype software to their sets, so that you won't even need to drag out a laptop to start a session. It's Skype's hope that people won't spend all their time talking about how no one but Google seems to be able to make any money online anymore. F

Forbes.com Senior Editor **Lee Gomes**, in our Silicon Valley bureau, is at lgomes@forbes.com. Visit him at www.forbes.com/gomes.

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The Geese Are Cooked

That down vest you use in mountaineering has been superseded by aerogels. By Oliver Chiang

THE ROAD TO THE WORLD'S warmest, thinnest outdoor gear has been a long one. In 1931 American chemical engineer Samuel Kistler invented the lightest known solid—an aerogel—by drying a form of silicon dioxide (a raw material for glass) under intense pressure and high temperature. His invention was 96% air and turned out to be an excellent insulator. This fall apparel maker Russell Outdoors will begin selling, for $400, a superthin hunting jacket made of a material containing aerogels.

Aerogels might have found their way into clothing much earlier but for the difficulty in handling these brittle structures and their steep cost. Beginning in the 1940s Kistler helped create some commercial uses for aerogels, including an insecticide and a thickening agent for paint. Further commercialization stumbled, however.

"Nanotechnology didn't exist yet as a field, so people just didn't understand what they had at the time and what aspects of aerogel made it so special," says Stephen Steiner, founder of Aerogel Technologies, which makes aerogel materials.

In 1999 Aspen Systems, a NASA contractor, began developing processes to create cheaper aerogels. Its chemical engineers found a way to integrate aerogels into a fabric mat. The resulting aerogel blanket was flexible rather than brittle, which solved the handling problem.

Aerogels can be made out of many different substances, including silicon dioxide (also called silica), carbon and even egg albumen, though silica aerogels are among the most common. Silica gel is put through a carefully controlled drying process that turns the liquid in the gel into gas. The process doesn't collapse the gel's structure, as would happen in normal evaporation. What's left is a glassy-looking sponge of silica—an aerogel.

Contrary to the "gel" part of its name, aerogels are highly porous solids that look like frozen blue smoke. Its tortuous network of pores makes it a great insulator; air can't easily diffuse through the pores. Aerogels can keep out both heat and cold. Some can withstand temperatures between absolute zero and 3,000 degrees Celsius. NASA has used aerogels to insulate space suits and the Mars Rover.

In 2001 Aspen Aerogels—a Northborough, Mass. spinoff of Aspen Systems—figured out how to use aerogel blankets instead of fiberglass as insulation in undersea oil pipelines. The switch reduced the thickness of the outer pipe by a third to 0.8 inches, cutting shipping and installation costs. Aspen's aerogel blankets are bulky and can't be sewn into apparel easily, but the company saw promise in the clothing market. In 2008 it partnered with Element 21, a Canadian golf-club maker, to develop processes to slice and encapsulate the aerogels into something apparel makers could use. In January the two companies unveiled an aerogel fabric called Zeroloft, so named because it can trap a person's warmth without being puffed up to produce loft (as a goose down jacket must be).

Canadian adventurer Jamie Clarke is putting the material to the ultimate test by climbing part of Mount Everest in a thin jacket made by Champion that contains Zeroloft. The 0.15-inch-thick windbreaker is as warm as a goose down jacket 1.6 inches thick, says Champion parent Hanesbrands, which is considering a jacket for the retail market. Sportswear companies Columbia, Adidas and Nike are experimenting with Zeroloft for use in gloves and footwear. F

ULTRAINSULATION

Aerogel turns out to have the highest relative ability of clothing to provide warmth, known as a Clo value.

Source: Element 21.

Superthin, superwarm: Mountaineer Jamie Clarke *(right)* and Element 21 Chief Executive Nataliya Hearn sport jackets lined with aerogels.

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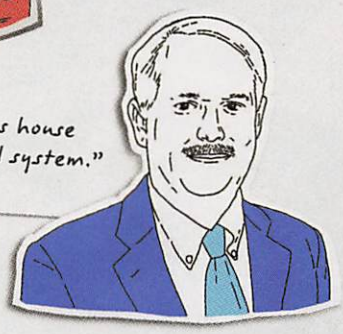

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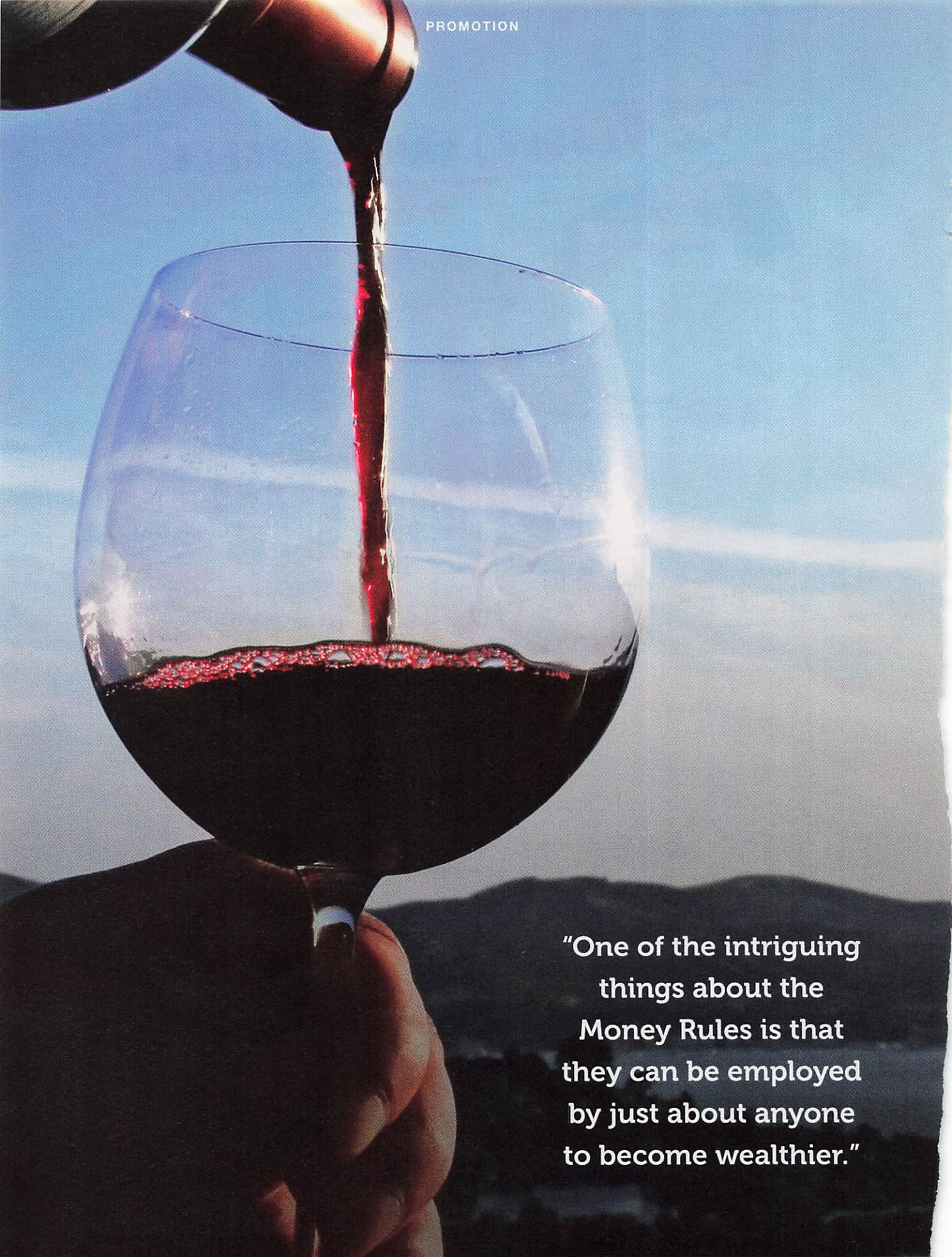


"One of the intriguing things about the Money Rules is that they can be employed by just about anyone to become wealthier."

Back in the High Life

Hannah Shaw Grove, the renowned private wealth expert, speaks with the president and chief executive officer of the Forbes Family Trust, **Keith M. Bloomfield,** about working with the financial elite, tuning in to their unique sensibilities and their surprising approach to recouping lost wealth.

HSG: How are the extremely rich different from the typical wealth management client?
KMB: In layman's terms, the major differences are their needs and their personalities. When clients have net worths of $100 million or greater, they usually have complex finances, and, more often than not, their personal finances and their business interests are closely intertwined. These types of clients want and need to work with experts that can help them legally pay less in taxes, manage their multinational affairs seamlessly, and protect their wealth from competitors, employees, former spouses and the like. The strategies that accomplish these things are rare, as are the specialists who design and implement them, but we provide these things and more to our clients.

HSG: You mentioned the personalities of the ultra-affluent as being distinctive, and when most people think about the super-rich they picture the Hollywood version—private jets, exotic cars, mansions, butlers and international shopping sprees—which might suggest a spoiled and self-centered individual. I suspect you meant something else, yes?
KMB: Well, most of what you mentioned certainly has a place in the luxury lifestyle, but what I was referring to is more of a mindset or a personal approach. For the most part, the super-rich are self-made. They haven't inherited their wealth. In fact, the majority of significant wealth is still controlled by the person or generation that was responsible for creating it. If you look at the Forbes Billionaires List, it's populated with people like Bill Gates and Warren Buffet, who built their fortunes during their lifetimes. Suffice it to say that it takes a special kind of person to achieve that kind of success—one that is laser-focused on his or her goals and unperturbed by failure.

HSG: In your new book, *The Family Office: Advising the Financial Elite*, you actually identify the characteristics and behaviors of the super-rich that have contributed to their financial success. Can you share some of your findings?
KMB: Collectively we refer to these psychological attributes and behavioral patterns as the Money Rules, and there are a total of seven. By and large, when we're dealing with the super-rich we see strong signs of all seven rules, but that's not always the case. The Money Rules were derived from extensive ethnographic research among the ultra-high-net-worth, and they are a composite of what we observed among that larger population. Essentially, they represent an elite code of conduct that has been internalized and actualized by exceedingly successful and wealthy people.

HSG: Can you describe one of the rules?
KMB: Sure. One of them is 'Stay Highly Centered' and this manifests itself in a few ways. First, it means maintaining your focus. Not chasing ancillary or interesting opportunities that crop up or letting yourself get distracted by the latest or loudest problems. Second, it means knowing your strengths and sticking to them. For instance, too many executives spend too many years trying to become well-rounded professionals and, often, all this does is mute strengths and introduce a series of inadequate skills. Highly successful individuals are usually specialists, of a sort. They've determined what their unique capabilities are and how they translate into money. Then they've honed those proficiencies and that's where they concentrate their time and efforts. Everything else gets delegated.

"The integration of Money Rules, private investment banking and advanced planning is a complicated endeavor that calls for specific knowledge, skills and oversight—but demand for the results that can be achieved is on the rise."

HSG: Sounds like it requires a lot of discipline. What's the most surprising rule?
KMB: You might get a different answer from one of my co-authors, but I think it's 'Commit to Extreme Wealth.' It sounds so obvious. I mean, who isn't committed to being rich? But it requires a conscious decision that becoming wealthy and achieving success is consistently one of the most important, if not the most important, things in your life. In practice this often means that other areas of your life will be neglected or even sacrificed in order to achieve your goals, and our experience tells us that this is almost always necessary if you want to reach the pinnacle of wealth.

HSG: What about the most logical rule?
KMB: I'd say it's 'Connect for Profits and Results.' It's no secret that networking is a valuable and critical part of advancement, but, of course, the super-rich do it differently. It's not about socializing or making as many contacts as possible. Broadly speaking, it's done using a process called nodal networking. It's essentially relationship building with a small group of influential and supportive individuals who are, in turn, doing the same thing. When all the 'nodes' are actively networking, it can create a compound effect.

HSG: Can the Money Rules be followed by anyone?
KMB: One of the intriguing things about the Money Rules is that they can be employed by just about anyone to become wealthier. It's unlikely that most people will follow them as rigidly and intensely as a self-made billionaire would, but that doesn't mean the rules can't be selectively followed to meaningfully boost a person's net worth. Furthermore, when you see the entire list you'll realize that they're not a secret. The key to success is not the rule itself, but the extent to which a person systematically and strategically implements the rule.

HSG: How do the Money Rules factor in to your role at the Forbes Family Trust?
KMB: Understanding the psychology of the super-rich is essential at a place like the Forbes Family Trust, and being aware and attuned to the Money Rules proves very useful in dealing with aggressive and ambitious centi-millionaires and billionaires. Increasingly, we're seeing a segment of clients who want to grow their wealth. In some cases it's because they lost assets in the recent financial crisis and in others it's simply because they perceive the current environment to be one that is filled with lucrative opportunities. In both cases we have a suite of relevant services to deliver, along with the processes and tools that complement the Money Rules and can help generate or rebuild a sizable personal fortune.

HSG: Historically family offices have focused on preserving the existing wealth of one or several families, but now it sounds like there's a growing demand for personal wealth creation. Is that the case?
KMB: Without question there are a substantial and growing number of high-net-worth individuals who aspire to greater wealth. In my professional capacity, I regularly encounter people who want assistance retooling their business interests and embarking on new initiatives that will drive the expansion or enhancement of their personal net worth.

HSG: Aside from the Money Rules, what else can you offer the client who is interested in wealth creation?
KMB: We have extensive experience working successfully with very affluent clients who are still in growth mode. We refer to the two scenarios I described earlier as 'turnarounds' and 'liftoffs' and tailor our expertise to their specific interests, capabilities and financial status. Money Rules is just one piece of the puzzle. The other important elements are private investment banking—one of my specialties—and advanced planning.

HSG: What is private investment banking and who is doing it today?
KMB: There's a lot of confusion around private investment banking; most firms that claim to be in the business are simply doing middle-market M&A deals. Just a fraction of family offices are providing or coordinating the service (Figure 1). Otherwise

FIGURE 1:

Provide or Coordinate Private Investment Banking Services

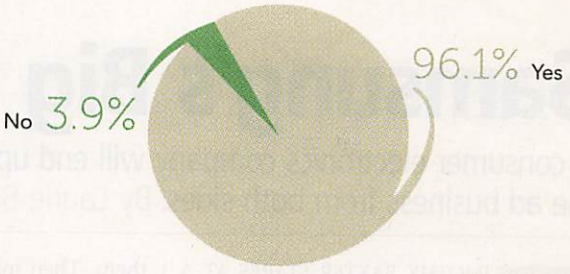
N = 903 Family Offices

Source: *The Family Office: Advising the Financial Elite (2010)*

FIGURE 2:

Reliance on Outside Counsel

N = 903 Family Offices



Source: *The Family Office: Advising the Financial Elite (2010)*

it's really the domain of a few boutique firms. Private investment banking typically starts by evaluating the liabilities and capital structure of a wealthy family. Then we think strategically about their personal needs, business ventures and overall finances while working collaboratively to restructure their balance sheets. This can take many forms, such as helping them source new financing for things like new business ventures or recapitalizations. We're almost always involved from start to finish: terms sheets, negotiations and the final agreement.

HSG: Can you elaborate on the process to source new financing?

KMB: Whether it's for personal or business reasons, many of the ultra-affluent need liquidity and can benefit from structured outside financing. Fortunately our connections and expertise enable us to rival the caliber of services that leading investment banks provide to their largest corporate clients. My role at the Forbes Family Trust is to understand the total integrated balance sheet of our clients and assemble customized capital raising services and capabilities (on superior terms, of course) that are needed to accomplish their goals.

HSG: You also mentioned advanced planning as a key part of the wealth creation formula. Why is it important?

KMB: Even though taxes are currently in a state of flux, they'll most likely go up, and the ultra-affluent will bear the brunt of the increase. Advanced planning is an inclusive term for the bright-line, or unquestionably legal, strategies and techniques that can mitigate taxes. We help our clients achieve tax efficiency in many areas—philanthropy, estate planning and investing, just to name a few. Notably, we've found a number of opportunities to help our clients reduce their tax obligations while realizing growth. It's the perfect combination for 'turnarounds' and 'liftoffs.'

HSG: What role do you play in delivering these capabilities to your clients?

KMB: I spent many years practicing M&A law at one of the top deal-making firms in the country. That perspective, coupled with my wealth management experience, is a clear advantage and allows me to personally oversee the private investment banking process on behalf of our clients. I'm also responsible for coordinating the various experts our clients need, and, in doing so, turn to the world's top legal and advanced planning specialists to address personal and corporate tax issues. On a related note, our research shows that nearly all family offices that provide advanced planning rely on the guidance and assistance of outside counsel to do so (Figure 2).

HSG: What is the future for this combination of highly specialized expertise?

KMB: The integration of Money Rules, private investment banking and advanced planning is a complicated endeavor that calls for specific knowledge, skills and oversight—but demand for the results that can be achieved is on the rise. Unfortunately, today there are relatively few firms able to put it all together. I expect to see more firms making a concerted and thoughtful effort to do so in the near future.

HSG: Keith, thank you so much for sharing your insights on the ultra-affluent and best of luck with the Forbes Family Trust.

Ms. Grove is an expert on the mindset, behavior and finances of the affluent and ultra-affluent markets and the author of nine books on related topics. For more information, visit **www.hsgrove.com** or **www.pw-mag.com**.

Mr. Bloomfield is a veteran of the wealth management business and one of the leading authorities on the sophisticated financial and lifestyle needs of the world's wealthiest families. For more information, visit **www.forbesfamilytrust.com**.

Forbes FAMILY TRUST

Samsung's Big Spend

A consumer electronics company will end up knowing the ad business from both sides. By Laurie Burkitt

TIMOTHY BAXTER STARES AT A pair of aces displayed on the screen of his Samsung Omnia II mobile phone. He taps a few buttons on it and then looks at a Samsung TV. Up pops a poker table with a pile of cards held by his opponent—a poker buddy in another city. "There's no reason these phones can't interact with the TV," says Baxter, president of consumer electronics at Samsung Electronics America.

If Baxter has his way, Texas Hold 'em is just the first in a series of synergistic exchanges among Samsung's products. The South Korean company's plans may include pushing interactive advertisements from other companies through Samsung's phones and flat-screen TVs. Ads will likely be built into Samsung's new application store that, similar to Apple's for its iPhone, lets consumers stream content from the Internet to—in Samsung's case—a Web-connected television. Millions of Samsung's IPTV owners now have access to 30 ad-free applications, such as movie-streaming programs Netflix and Blockbuster. By year-end they will be able to tap into more than 100 of them. Then marketers may start doing it, too, piping their own messages into the apps.

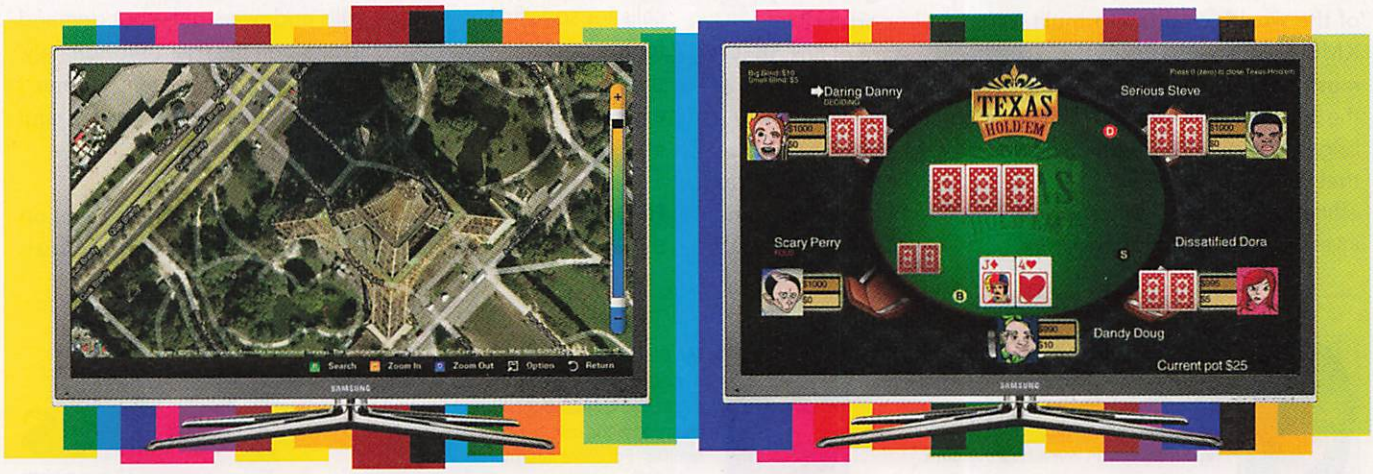
The theory here is that a vendor of electronic appliances cannot thrive just by offering sharper colors or brighter sound. Pricing power can come only from unique features or control over content. That explains Sony's long-ago venture into movie production and its recently announced plans to partner with Google in creating a Web-accessible TV. Apple has had notable success combining hardware with content; now, with its tablets and iPhones, it wants a piece of advertising money. Samsung aims to fight Sony and Apple in this war for eyeballs.

To dish out ads at scale in the TV app market Samsung may have to purchase or start an ad network that will stand between advertisers and the devices that carry ads. Samsung execs are coy about company plans, but such a move would position Samsung as a threat not just to Apple but also to cable companies. It could bring in lots of ad dollars from companies eager to pitch their products on a screen 25 times the size of an iPhone's. It would also make Samsung a data collector, privy to insight about what kinds of applications its TV owners like so that Samsung can help determine what ads they should receive.

It is an ambitious expansion, even for a company that had sales of $79 billion last year, a 23% increase over the year before. This company is all over the place: semiconductors (26% of revenues), washing machines, printers, projectors, camcorders, mobile phones and cameras.

Samsung may be somewhat new to the business of selling ads, but it sure knows what buying them is all about. It just launched a big U.S. ad campaign that will have it spending $200 million this year. Two TV spots for its 3-D TVs, another big growth bet this year, were directed by *Avatar*'s Oscar-winning director of photography, Mauro Fiore, and are already running. Six more, created by Leo Burnett in Chicago, are due out soon. They feature a new tagline: "Dedicated to Wonder." Because Samsung wants passion surrounding its products, it's targeting fans who have fervor, showing ads in NFL games and on popular daytime TV shows.

The new growth strategy relies on winning over consumers, then developers of application software and then marketers. Baxter, a former vice president of Sony, is confident he's taking Samsung in the right direction. Says he: "We'll win by giving the consumers what they want." Maybe even a few features they didn't know they wanted. F



Apps in action: Why should mobile users have all the fun? South Korea's Samsung is moving apps to TVs.

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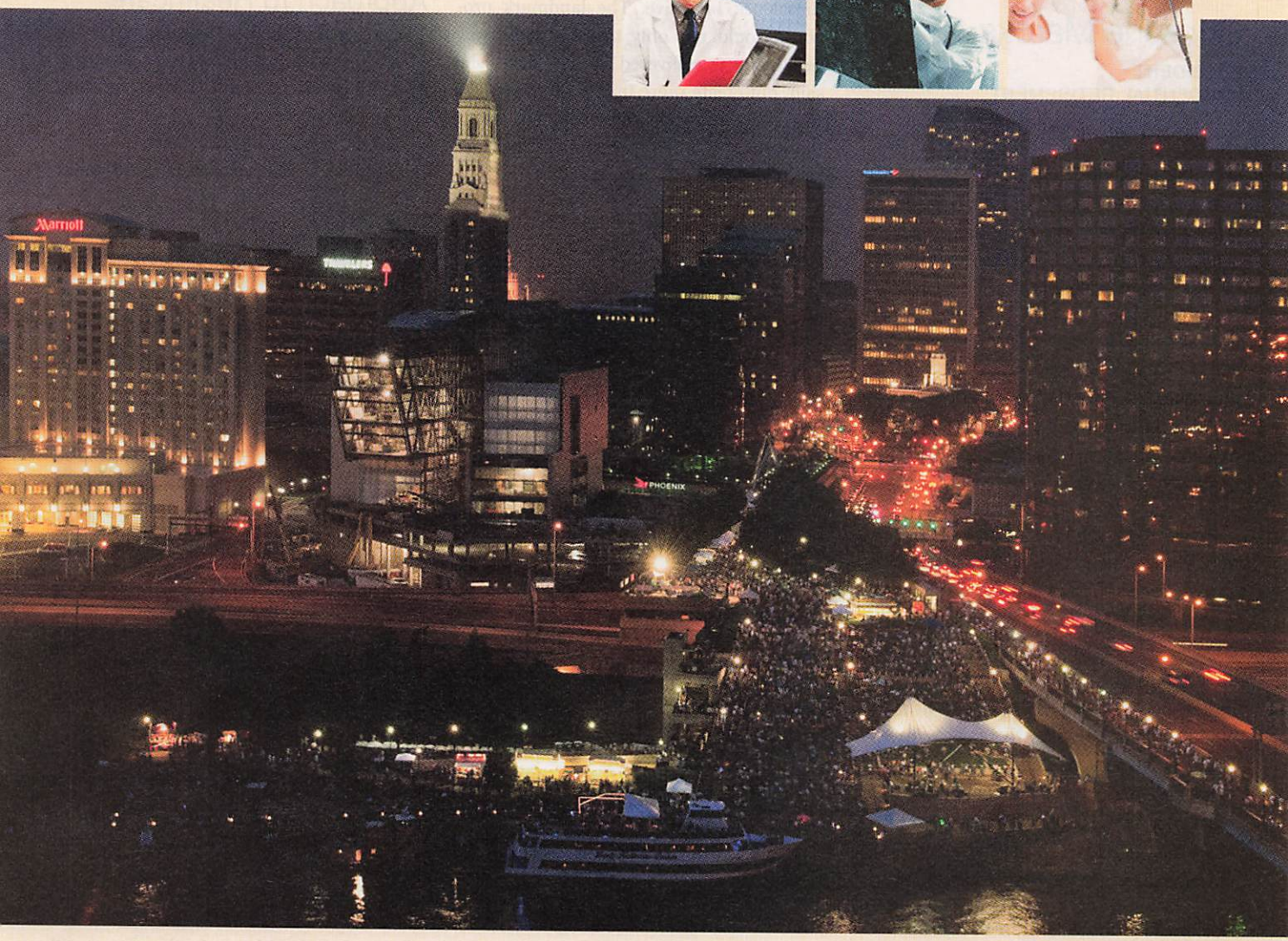

By James Battaglio and Carol Latter

At a time when healthcare reform and economic recovery are key issues for the U.S., the Hartford Region is taking bold steps to build on its impressive healthcare assets and provide state-of-the-art care to people throughout Connecticut and across the nation.

Metro Hartford is already a healthcare mecca for those seeking top-quality care. Now an ambitious plan to ramp up existing levels of collaboration among the region's hospitals is expected to provide an even higher quality of clinical care, accelerate medical research, create efficiencies and improve communication—while enhancing Metro Hartford's reputation as a center of excellence that attracts patients and practitioners from across the country.

Christine Marcks

PRESIDENT
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Our passion is to help enrich communities in which we work and live. Through programs focused on long-term benefits to the community, we provide business expertise, financial assistance, and employee volunteers.

In 2009, we focused primarily on education, arts and culture, and financial literacy. The Prudential Foundation granted $150,000 to Achieve Hartford!, and Prudential Retirement actively supported High School, Inc. Prudential Retirement remained the title sponsor of the Hartford's Monday Night Jazz Festival, bringing free performances by renowned musicians to the community. Most important, Prudential employees make a difference every day through volunteer efforts in the Hartford area.

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Metro Hartford's Growing Healthcare Network

In early May, the Connecticut General Assembly approved Governor M. Jodi Rell's $352 million initiative called the UConn Health Network and Connecticut Bioscience Initiative. The landmark proposal would not only transform the way healthcare is delivered in the state, she said, but create more than 5,000 new jobs in under 10 years, and eventually bring more than $1 billion in new tax revenues to Connecticut.

The proposal also includes a number of initiatives based at, or involving, regional hospitals to address some of the most pressing healthcare issues facing the region.

A More Coordinated Approach to Healthcare

The creation of the healthcare network for Metro Hartford is contingent on receiving $100 million in federal funding or funding from other sources.

UConn President Michael Hogan is confident that the plan for a more coordinated approach to healthcare in the region will become reality.

An ambitious plan to ramp up existing levels of collaboration among the region's hospitals is expected to provide an even higher quality of clinical care, accelerate medical research, create efficiencies and improve communication.

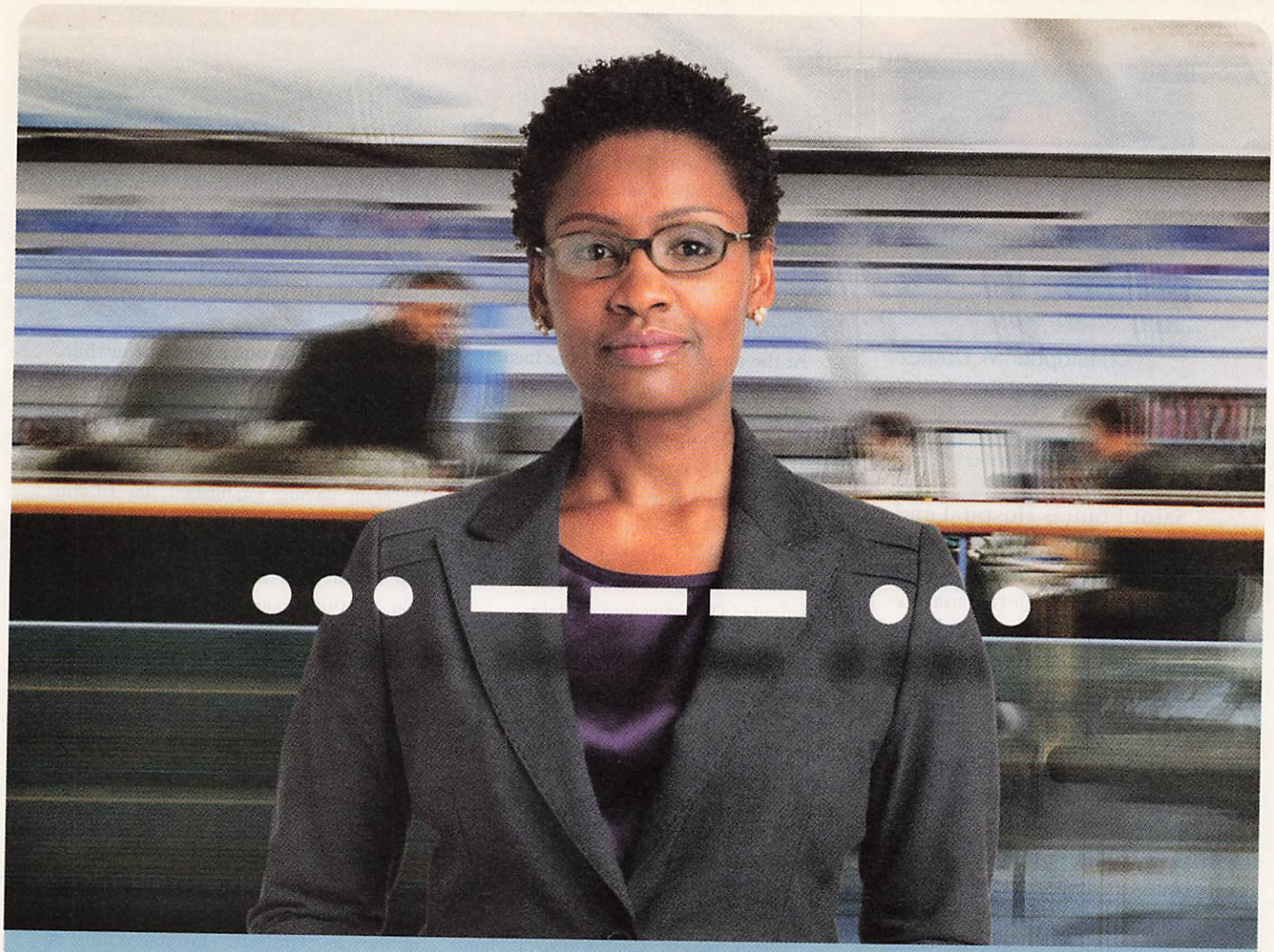
Important Upgrades and Developments

At the center of the network plan is the renewal of the John Dempsey Hospital, including the construction of a new state-of-the-art patient tower located at the University of Connecticut Health Center campus in Farmington.

Dr. Cato T. Laurencin—UConn Health Center's vice president for health affairs, and dean of the UConn School of Medicine—describes the campus as the region's "integrated academic medical center for clinical care, education and research."

"This kind of vision is exactly what's needed as Connecticut looks ahead to continuing its role as a leader in innovation and care for our citizens," he says. Hogan adds that the governor's proposal "will stimulate job growth, promote economic development and improve access to the state-of-the-art healthcare that our faculty and staff deliver every day."

Laurencin says the hospitals associated with the proposed health network already share many connections: "The UConn Health Center serves as an academic hub and really



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Christopher M. Dadlez
President and Chief Executive Officer
Saint Francis Hospital and Medical Center

Saint Francis Hospital and Medical Center consistently demonstrates high-quality and low-cost performance and has embraced a culture of continuous improvement designed to achieve Best*Care* for a LifeTime™.

At Saint Francis, we designate a clinical service as a *Center of Excellence* when it performs as a leader in its field, maintains an unparalleled level of quality, and has a significant commitment to education and research. We currently identify five *Centers of Excellence* in the following clinical areas:

- **Cardiology**
- **Oncology**
- **Orthopedics**
- **Rehabilitation Services**
- **Women's and Children's Care**

These *Centers of Excellence* have combined world-class protocols and outcomes with the latest treatments and technologies to deliver the highest level of patient care. Each one exemplifies our commitment to clinical excellence and compassionate caring.

SAINT FRANCIS
Hospital and Medical Center

tries to unite the region in a number of clinical areas." UConn Health Center's pediatrics and family medicine departments, for example, are based at Connecticut Children's and Saint Francis, respectively, while its neurology and emergency medicine programs are offered jointly with Hartford Hospital.

At the medical school, a core faculty of approximately 500 members is located at UConn and Connecticut Children's, "but we also have another 600 clinical faculty members who work at the other hospitals and community practitioners in the region. These hospitals and community sites collectively create a great learning environment for medical students and residents," Dr. Laurencin explains.

UConn Health Center

Each hospital offers its own area of expertise, with UConn having signature programs in musculoskeletal medicine, cardiology and cancer care.

UConn has great expertise in orthopedic surgery. "National and international leaders in sports medicine arthroplasty practice at UConn Health Center," Dr. Laurencin notes.

UConn Health Center also is home to the Pat and Jim Calhoun Cardiology Center, where a multidisciplinary team of cardiologists, vascular surgeons and hypertension experts work to prevent and treat cardiovascular disease. UConn Health Center also operates a world-class center for smoking cessation.

UConn Health Center's third major area of expertise, Dr. Laurencin says, is its oncology treatment program, "which offers expert cancer treatment in the environment of academic research and a medical center with expertise in clinical trials. This ensures that the care being provided is state of the art."

Its top-rated dental school, meanwhile, offers "a high level of care as well as cross-fertilization between the medical and dental areas," says Dr. Laurencin.

The center is also a leader in stem cell research, having established the UConn Stem Cell Institute (UCSCI) after the state passed legislation to fund stem cell research in 2005. A new $52 million, 117,000-square-foot research facility dubbed the Cell and Genomic Sciences Building is slated to open this July. The center will bring together some 180 scientists and their staffs, with the goal of promoting interdisciplinary research to advance research and technology transfer in the stem cell field.

Hartford Hospital

With 867 beds and a campus that encompasses more than 50 acres in the center of the city, Hartford Hospital is one of the largest healthcare facilities in New England, offering centers of excellence in trauma, transplant surgery, cancer, cardiology, gynecological surgery, high-risk pregnancy, mental health, bariatric surgery and a stroke center.

The hospital houses the Helen and Harry

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Our nationally known centers of excellence will treat you and your employees very well:

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Hospital and Medical Center

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Elliot Joseph

PRESIDENT AND CEO
HARTFORD HEALTHCARE AND
HARTFORD HOSPITAL

America's healthcare system is entering a new era, and Elliot Joseph believes that real opportunities to improve local healthcare delivery lie ahead.

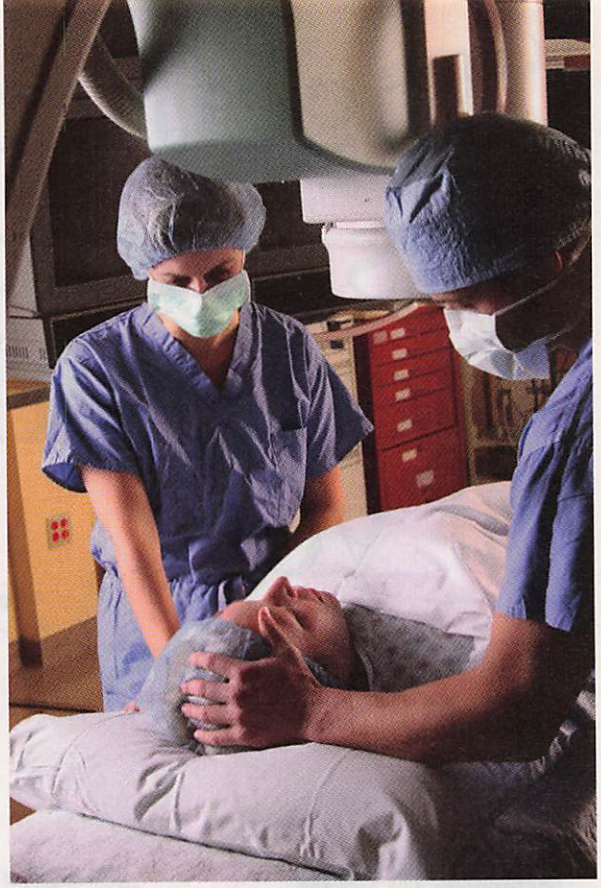
"The time is now to transform our industry," says Joseph, 56, president and CEO of Hartford Healthcare and its flagship tertiary care center, Hartford Hospital. Change, he says, is required—and must go beyond the reforms just passed by Congress. Healthcare providers must help reshape the U.S. system by creating regional affiliations that provide consistently high-quality care to individuals with greater efficiency and coordination.

A veteran network builder, Joseph was president and CEO of St. John Health in Michigan before coming to Hartford in 2008. His vision for Hartford Healthcare, which also includes two community hospitals, 3,000 physicians, a VNA, behavioral health centers and other providers, is of a network that produces consistently excellent outcomes and creates a seamless patient experience.

www.harthosp.org

HARTFORD HOSPITAL

Gray Cancer Center, New England's only National Cancer Institute community cancer center, along with the freestanding Institute of Living mental health hospital, which is ranked 17th in the nation, and the LIFE STAR air ambulance, Connecticut's only hospital helicopter. The hospital recently expanded its existing prostate, kidney and hysterectomy robotic surgical program by adding cardiac, gynecologic oncology and urogynecological surgery, thus creating the largest robotic surgical program in New England. Its stroke and bariatric surgical centers are also Connecticut's largest.



"Healthcare is the largest cottage industry in the U.S. We believe a regional system of care is far better, in that it takes the patient from a cottage approach to a seamless system of healthcare."

—JAMES BLAZER, *SVP and CSO, Hartford Hospital*

As the flagship institution within the Hartford Healthcare Corporation (HHCC), which includes a growing number of hospitals and other healthcare facilities, Hartford Hospital is an integral component in a continuum of care that spans much of northern Connecticut.

"Healthcare is the largest cottage industry in the U.S.," says James Blazer, senior vice president and chief strategy officer. "We believe a regional system of care is far better, in that it takes the patient from a cottage approach to a seamless system of healthcare." Blazer says that healthcare system hospitals benefit from shared services.

The hospital is home to the state's first Simulation Center, launched in 1999, which features lifelike, fully responsive computerized replicas of the human body that allow medical students, practicing physicians, first responders and other clinicians to further hone their craft. The center, accredited by the American College of Surgeons, will soon add cutting-edge resources to train the next generation of surgeons in the latest robotic and minimally invasive techniques. The program is expected to be New England's only center for comprehensive experiential learning for surgeons and clinicians using simulation technologies.

Other members of the HHCC include: VNA Healthcare Inc., Eastern Rehabilitation Network, the Institute of Living, Natchaug Hospital, MidState Medical Center, Windham Community Memorial Hospital and Clinical Lab Partners.

Connecticut Children's Medical Center

The Connecticut Children's Medical Center is the state's only freestanding children's hospital. "All of our services are geared to infants, children and adolescents, and we emphasize the importance of family-centered care in all of our practices," says Wendy Warring, Connecticut Children's executive vice president and chief operating officer.

Defining Healthcare in Connecticut Since 1854.

State-of-the-art imaging, region's only Level 1 trauma center, largest robotic surgery program in the Northeast, NCI Community Cancer Center, $12 million in clinical research, region's most experienced joint-replacement specialists, preeminent heart attack care, *LIFE STAR* – state's only air medical transport, top-ranked on psychiatry in *U.S. News & World Report*, award-winning Stroke Center – all of it overseen by nationally-recognized physicians and outstanding nurses.

HARTFORD HOSPITAL

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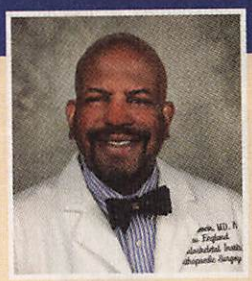

Cato T. Laurencin, M.D., Ph.D.

UNIVERSITY OF CONNECTICUT, VICE PRESIDENT FOR HEALTH AFFAIRS AND DEAN, SCHOOL OF MEDICINE

Cato T. Laurencin, M.D., Ph.D., a nationally and internationally prominent orthopedic surgeon and chemical engineer, leads the University of Connecticut Health Center as its vice president for health affairs and dean of the School of Medicine.

Dr. Laurencin earned his medical degree *magna cum laude* from Harvard. He also earned a Ph.D. in biochemical engineering/biotechnology from M.I.T.

Dr. Laurencin is an elected member of the Institute of Medicine of the National Academy of Sciences and has been recognized by America's Top Doctors and America's Top Surgeons.

In science, Dr. Laurencin has been named one of the 100 Chemical Engineers of the Modern Era by the American Institute of Chemical Engineers. *Scientific American* magazine honored him among the top 50 innovators for 2007 for his work on regeneration of knee tissue.

Most recently, President Barack Obama named Dr. Laurencin a 2009 winner of the Presidential Award for Excellence in Science, Math and Engineering Mentorship.

To read Dr. Laurencin's full biography, **visit www.uchc.edu.**

UConn Health Center

KNOW BETTER CARE

Home to the region's premier neonatal ICU, Connecticut Children's operates a strong clinical and research program in digestive diseases, and a urology program that involves solid-tumor surgery, complex reconstructive surgery and some oncology.

Connecticut Children's has the most comprehensive pediatric oncology program in western New England. In March, the hospital unveiled plans to construct a new outpatient Care Center for Cancer and Blood Disorders. The $5 million center will feature state-of-the-art treatment in a nurturing environment and will double the space available for oncology treatment.

Patients come from all over the state, but "we are trying to bring pediatrics specialty care to different regions of the state and see kids in an ambulatory setting in a way that's convenient to parents," Warring says. To that end, Connecticut Children's is setting up a series of satellite offices. It also operates a 12-bed inpatient unit at St. Mary's hospital in Waterbury, where parents can access a broad range of secondary and tertiary care.

Schepker, senior vice president of marketing and business development.

"Despite the economy, Saint Francis Hospital made the determination that this community deserves and will support a world-class facility such as this," says Schepker.

The new tower will include an enlarged emergency department with 70 treatment areas and 10 ambulance bays, 19 new operating rooms, 72 private patient rooms, six dedicated orthopedic operating rooms and 63 inpatient orthopedic beds for the new Connecticut Joint Replacement Institute. The O'Connell Tower will also feature a helipad atop its roof.

"By converting all inpatient rooms to private accommodations, both within the tower and within the existing Saint Francis Hospital, we've been able to make this transition without adding to our bed capacity," says Schepker.

The hospital houses Connecticut's largest open-heart surgery center and ranks seventh in the nation in terms of joint-replacement volume.

"Despite the economy, Saint Francis Hospital made the determination that this community deserves and will support a world-class facility such as this."

—JAMES SCHEPKER, *SVP, Marketing and Business Development, Saint Francis Hospital and Medical Center*

Saint Francis Hospital and Medical Center

At the 617-bed Saint Francis Hospital and Medical Center in Hartford, the emphasis is on five centers of excellence—cardiology, oncology, orthopedics, rehabilitative medicine and women's and children's services—as well as its new 10-story, $184 million John T. O'Connell Tower, currently under construction.

When completed next May, the 318,000-square-foot structure will exemplify Saint Francis' emphasis on "progressive healthcare services," according to James

people from throughout the region find the care they need from university specialists and nationally recognized physicians at the UConn Health Center. Our services range from routine physicals and prenatal care to 24/7 attention in the Farmington Valley's only Emergency Department. And every day, we offer advanced services and technologies, such as:

- State-of-the-art **cancer care**, including prevention, detection and Connecticut's only TomoTherapy radiation oncology system
- A full range of **cardiovascular services**, from preventive care to sophisticated cardiac surgeries and angioplasty
- The region's only freestanding **center for bone and musculoskeletal health**, including joint preservation and replacement surgery

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Learn more by visiting www.uchc.edu.

Make an appointment today by calling 800-535-6232.

263 Farmington Avenue, Farmington

UConn Health Center

KNOW BETTER CARE

In addition to owning and operating Mount Sinai Rehabilitation Hospital, the state's only freestanding acute-care rehabilitation hospital, Saint Francis Hospital offers progressive services for women and children, including state-of-the-art birthing facilities, advanced gynecological programs, a dedicated breast health center and a renowned, multidisciplinary cancer center.

Saint Francis is in the process of expanding its ambulatory facilities, including an urgent care center in neighboring Bloomfield, an access center in Ellington, and three more urban and suburban sites currently in the planning stage.

Hospital for Special Care

As a long-term acute-care facility, Hospital for Special Care (HSC) in New Britain is committed to the ongoing treatment and rehabilitation of patients with chronic and complex conditions. Many of the top acute-care hospitals throughout Connecticut refer patients here for continued care and rehabilitation.

"We're an answer to acute care's problems," says Lynn Ricci, senior vice president for administration at HSC.

Providing a continuum of highly individualized, compassionate care from pediatrics through adulthood, HSC is nationally renowned for treatment within its five specialty areas: pulmonary disease, acquired brain injury disorders, complex pediatrics, neuromuscular disease and spinal cord disorders.

It is the only hospital in the region to treat neuromuscular disease with the magnitude that it does. Despite being a chronic disease healthcare institution, it has devoted 33 neurobehavioral beds to a specialized unit.

In addition to its 200-bed inpatient facility, HSC operates a 28-bed satellite, offering a range of today's most advanced outpatient rehabilitative and therapeutic services.

The hospital's comprehensive spinal cord program focuses on both inpatients and outpatients and includes physiatrists and a therapy pool for patients with significant physical challenges.

"Our programs have really grown throughout the community. For example, we have strong relationships with Hartford Hospital and Saint Francis Hospital and Medical Center, as well as UConn Health Center and the Hospital of Central Connecticut," explains Ricci.

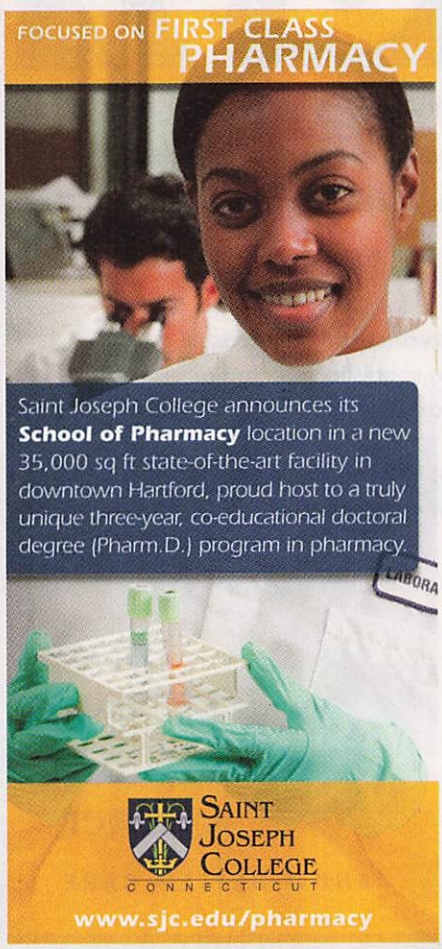
The Hospital of Central Connecticut

New Britain General and Bradley Memorial in Southington merged in October 2006 to become The Hospital of Central Connecticut (HCC) in a successful effort to streamline operations and reduce costs.

"This has resulted in a bigger, stronger hospital that can provide more services to a larger group close to home, so people don't have to travel far when they're sick," says Helayne Lightstone, HCC's director of corporate communications.

Today, HCC is recognized as a clinically advanced teaching hospital that offers a high level of sophisticated services to the local community. "Patients from across the state come to our Joslin Diabetes Center affiliate, which offers the most advanced care for diabetes, from day-to-day care to clinical research," says Lightstone.

The hospital's bariatric weight-loss programs earned it a "Center of Excellence" designation from the American Society for Metabolic and Bariatric Surgery. HCC is also known for its clinical research and surgery involving joints and spine. "We provide very high levels of neurosurgical care, through both traditional and radiation surgery," she adds. HCC also has advanced capabilities in terms of knifeless surgery for brain cancer.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HCC has been designated a stroke center by the state and various accrediting bodies, and several years ago received approval to conduct emergency angioplasty.

In addition, the hospital has "one of the busiest emergency departments in the state, and yet we are known for our short waiting times," Lightstone said. By visiting the hospital web site or downloading a free phone app, patients can determine which of the hospital's campuses has the shortest waiting time before heading to the emergency department.

A Healthy Place to Live

Metro Hartford's healthcare assets make the region a top-tier place to live and work, says David A. Gladstone, a partner at BlumShapiro, the largest regional accounting and business consulting firm in Connecticut. "A true strength of the acute-care delivery system in the area is the access provided to all who need it. Our hospitals offer a full range of services, and the hospital clinics and community health clinics provide a safety net for primary care to ensure that everyone's health needs are met. Unlike other areas of the country that have access limitations, we have the quality and capacity to meet our community needs."

The proximity of top educational institutions in the area, meanwhile, ensures a steady supply of highly trained healthcare professionals. Among them is Saint Joseph College, which is poised to open a new pharmacy school in downtown Hartford.

Saint Joseph President Pamela Trotman Reid says the college "has a strong tradition of excellence in the sciences, particularly health sciences, paired with a contemporary approach to addressing emerging societal needs. Our programs combine top-notch faculty and facilities with an emphasis on service to others."

All in all, says UConn's Dr. Laurencin, the Hartford region offers a high level of care, and its hospitals have "incredible expertise in pretty much every clinical area. The credentials and background of individuals are really superb, and the experience and expertise are in many ways unparalleled."

He adds, "The vision is for us to rise as a region, to be a destination for healthcare, and that happens with all the hospitals working together to uplift clinical care, education and research." ■

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Metro Hartford Alliance

The MetroHartford Alliance ensures that the Hartford Region competes aggressively for jobs, capital and talent. To that end, the Alliance supports pro-growth legislation, helps local companies expand, assists start-ups, encourages government investment in key infrastructure assets, develops programs for young professionals, and recruits companies from out of state to build a presence in the Region.

Visit www.metrohartford.com for more information.

HARTFORD, CONNECTICUT

Hartford is one of America's original cities with a proud, historic past and a promising, vibrant future. Connecticut's Capital City is the economic and cultural hub of a region of 1.2 million people. It is an arts mecca—complete with 200 arts and heritage organizations. It's also part of the Knowledge Corridor with the University of Hartford and Trinity College—and now the downtown area has become an educational magnet with the University of Connecticut, St. Joseph's College, Rensselaer Hartford and Capital Community College introducing new programs and facilities to fuel the city's and the region's growth.

Hartford is a leader in healthcare, has nationally recognized hospitals and is home to major insurance and financial service corporations. Aetna, The Hartford, United Health Group and Travelers, among others, benefit from a highly educated and productive workforce that makes Hartford unique.

Add to this the majestic Connecticut River, the new Connecticut Science Center, our Convention Center and the convenience of Bradley International Airport, and you can see why Hartford Means Business!

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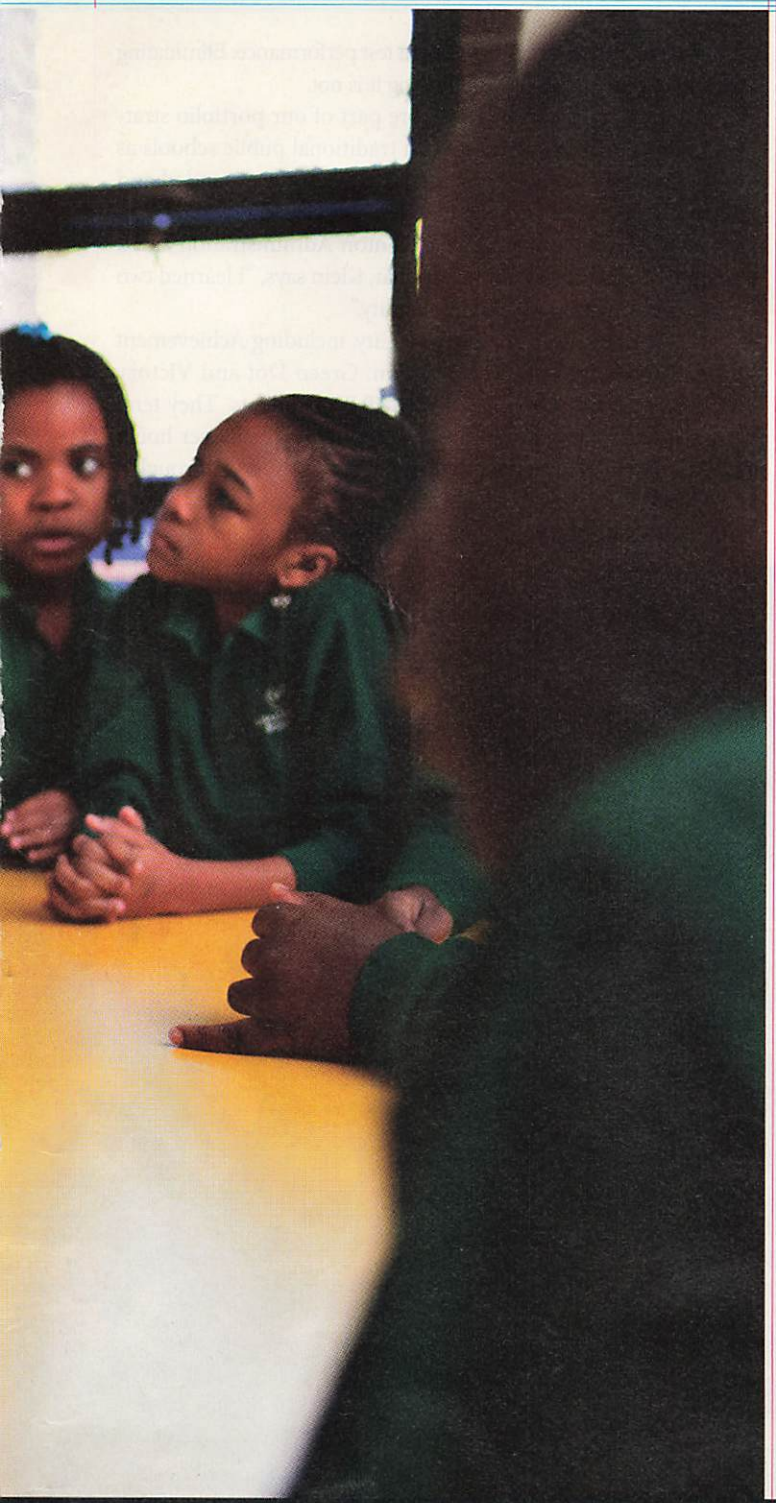
What Educators Are Learning

Innovative schools collect data, look for smal and move resources to the formulas that wor



From Money Managers

changes, intervene quickly

By Daniel Fisher

BROWNSVILLE ELEMENTARY SCHOOL IN Brooklyn is surrounded by neighborhoods with the highest murder rates in New York City. But inside the charter school at 10:30 a.m. everything is tranquil. Dressed in identical uniforms of green polo shirts and khakis, students walk carefully along tape strips in the halls before sitting down at their desks. Except for controlled bursts of excitement, as when a teacher asks kids to yell out their goals for a lesson, classrooms are hushed in concentration. Children perform tasks like organizing papers on their desks and placing pencils next to their books with precision.

The emphasis on polite manners and discipline is straight out of the 1930s. Except for what is going on behind the scenes: From quiz scores to homework and attendance records, every detail of a student's performance at Brownsville Elementary is fed into computer databases where teachers and administrators examine the constantly unfolding record and quickly adjust lesson plans and individual teaching strategies in response. Achievement First, the New Haven, Conn. nonprofit that operates Brownsville Elementary and 16 other schools in Connecticut and New York, is more like an information-driven company than an old-fashioned school district. "We're obsessed with using data on an ongoing basis," says Douglas McCurry, Achievement First's co-chief executive and a frequent presence in school halls. "Schools are fundamentally undermanaged."

American education is, as always, in a state of crisis. In the past four decades spending per pupil (adjusted for inflation) has gone up 2.6 times, but SAT scores have not budged. Despite the $661 billion a year this country puts into public K–12 education, we are churning out a nation of mediocre graduates ill equipped to meet global competitors. Thousands of teachers are being laid off. Central Falls, R.I. fired all of its high school teachers (half will be hired back); in Kansas City, Mo. half the schools are closing. Reformist politicians in Florida, Colorado, Washington, D.C. and New Jersey are confronting teachers' unions and the sacred rights of tenure and rising compensation.

Away from the angriest national debates, however, a quiet revolution in American public education is occurring at organizations around the country like Achievement First *(see pages 74, 76, 77, 78)*. Most were launched by idealistic liberals with dreams of social equality. But with annual budgets exceeding $50 million, sophisticated computer systems and hundreds of employees, they are starting to resemble corporations—tracking and responding

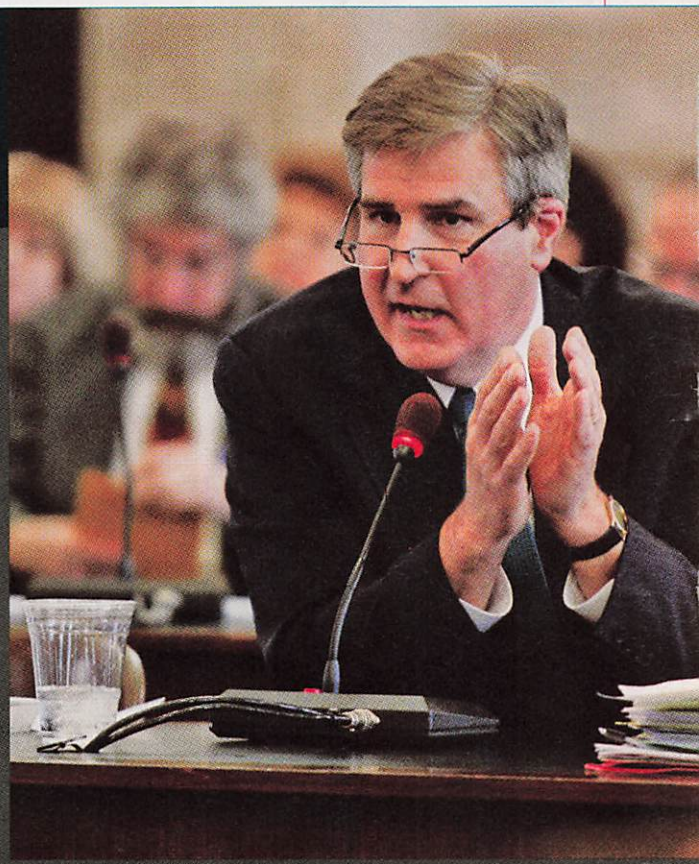
to minute changes and putting resources to efficient and innovative uses. The question is whether these strategies can be writ large, like Wal-Mart, to work in thousands of schools with millions of students nationwide. There are plenty of doubters.

One believer in data-driven management is Joel Klein, chancellor of the 1.1 million-student New York City Department of Education. Klein takes a portfolio-theory approach to education reform, meaning he wants a selection of large, professional organizations to choose from when he sets up a new charter school to operate outside the district's maze of union contracts and bureaucratic rules. Like a pension sponsor looking to put assets with winning portfolio managers, Klein and his crew want to pick school operators (or traditional school principals) that can reliably move poor students ahead. The goal is to close the so-called "Scarsdale gap" between wealthy suburbs and urban schools in student test performance. Eliminating the gap may be impossible; narrowing it is not.

Charters, says Klein, are a "core part of our portfolio strategy," which includes working with traditional public schools as well. "Our view is those that are good we want expanded and those that are doing a poor job we want closed down." As an assistant attorney general in the Clinton Administration and a longtime corporate lawyer before that, Klein says, "I learned two things: competition and accountability."

Charter operators in New York City, including Achievement First, Knowledge Is Power Program, Green Dot and Victory Schools, now run 125 schools with 40,000 students. They tend to pay teachers more than union scale (albeit for longer hours and more school days per year) and collect a stipend of roughly $12,300 a year for each student they enroll, close to what the district spends on traditional public schools (not counting occu-

Homecoming Day For a Reformer



AP PHOTO / MEL EVANS

Bret Schundler, New Jersey's new education commissioner, comes across like the reassuring pastor he once planned to be. He's not a bomb thrower like his boss, Governor Chris Christie, who accused teachers of "using the students like drug mules" to talk their parents into voting for school budgets. But some of Schundler's ideas about education, formed 20 years ago, still sound provocative.

New Jersey schools run up a tab of $19,000 a year per pupil, more than any state after New York. Despite the lavish funding, Schundler says, "the state is failing to fulfill its responsibility." The U.S. has trailed badly in international comparisons for years, but what official has ever said his schools are part of the problem? He points out that only 42% of New Jersey's eighth graders are proficient in reading; that county and state colleges spend enormous sums on remedial classes; and that the elite districts with the huge property taxes could provide much better schools.

For Schundler, 51—a product of Westfield (N.J.) High, where he was All-State in football—the key to improving the schools is to improve the quality of the state's 110,000 K–12 public school teachers. That starts with tenure, which in New Jersey guarantees a lifetime job to the vast majority of teachers after a cursory review in their third year on the job. Pay raises have little to do with how hard teachers work or how their students perform; instead pay is calculated under a rigid, union-negotiated formula based on how many years teachers have put in and how many extra diplomas they've collected. "Our system is horrible," Schundler says.

Instead he would award tenure "based on effectiveness, not simply elapsed time," and only after five years. He would use state money to pay annual bonuses to the best teachers, especially if they volunteer to move to tough schools. He would make it easier for out-of-state teachers or career switchers to be certified in New Jersey. He would clear a path for the best teachers to start new schools in their district—what Schundler calls "achievement academies"—and "be compensated like true professionals." Salaries for New Jersey teachers range from $45,000 to $125,000; the median was $59,500 last year.

To shift from a seniority to a merit system, Schundler wants to kick the state into the information age, using data to help decide which teachers get tenure, bonuses, promotions—or the boot. The teachers' union "says you

pancy and police costs). In the aggregate, they are getting results. Last year charter-school students exceeded the New York City average by eight percentage points in reading and seven in math, and outperformed students from their own districts by at least three times as much. These kids were not cherry-picked; nearly all the students were selected by lottery.

A 2009 study by Stanford University researcher Caroline Hoxby showed that the New York City charter schools achieved this with students who were 63% African-American versus 34% districtwide, and whose household incomes were 37% lower. Hoxby compared applicants who won the lottery for a slot in a charter school to those who didn't. She found the charter students had closed 86% of the Scarsdale gap by the end of eighth grade, while the noncharter pupils remained just as far behind. Perhaps reflecting the motivation that led them to apply for the lottery, all students outperformed their peers in poor districts. (There are no such controlled experiments nationally.)

Frustration with the persistent gulf between rich and poor students drove Dacia Toll, a Rhodes scholar and Yale Law School graduate, to found her first charter school in New Haven in 1998. Now 38, Toll launched Amistad Academy—named after the Spanish ship hijacked by slaves and sailed to the U.S. in 1839—on the theory that social justice begins with better education. Achievement First has a $60 million budget and 17 schools with 4,500 students (300 of them at Brownsville Elementary), making it the equivalent of a good-size school district. The company spends less than 10% of its budget on central administrative costs, compared with 15% to 25% at most urban school districts, which tend to have a heavy load of patronage jobs. The savings get spent at the school level. Teachers receive higher salaries—and help. Brownsville Elementary backs 23 teachers up with five administrators, including deans and "coaches." "We don't think you can coach and manage more than six people effectively," co-chief McCurry says.

> Charters and public schools are a "core part of our portfolio strategy. Our view is those that are good we want expanded, and those that are doing a poor job we want closed down."

Like other successful charter school operators, Achievement First focuses on lagging students, because once they fall behind it is extremely difficult to bring them back up to speed. Children in kindergarten through second grade are given a one-on-one reading comprehension test every six weeks and graded on a scale of 1 to 12. If the entire class struggles with a concept, McCurry says, "we can go back and reteach that." But if individual students fall behind, the school pulls them out into separate groups for intensive instruction on their individual weak points. The extra lessons can be delivered on a computer or during a lunchtime tutoring session; the important thing is that teachers and administrators are constantly watching and adjusting their methods as test results come in.

In one sunny classroom at Brownsville Elementary eight second graders sit in a circle of desks. One teacher fires questions at them from in front of a whiteboard while a second, younger teacher watches and takes notes. These students are the poorest-performing readers in their class, so Achievement First has put them in a separate group with Samantha Hooper, one of the school's most experienced and highest-paid teachers.

Other classes at Brownsville Elementary run 28 to 30 students apiece, enough to drive a suburban parent into a nervous rage. But national studies show no relationship between class size and student performance. (In fact, the Stanford study found a positive correlation between class size at charter schools and academic performance.) By expanding classes, organizations like Achievement First can add a junior teacher to the classroom to help out and learn under a more experienced colleague. The goal is to achieve better results without spending any more than traditional public schools, which in New York City is $16,700 per pupil, including occupancy

The commish: Bret Schundler, New Jersey's new education chief, has pushed for changes in schools over the last 20 years.

can't measure student learning," he says. "I reject that." He aims to assess every student's monthly, quarterly and annual progress. A central computer system will keep track of everything (and how students turn out—through college and in the workplace). This will help pinpoint the curricula, programs, schools and other factors most useful to turning out better students.

While the union hasn't lined up behind his reforms, the public is with Schundler, and there is wind at his back blowing from Washington. Education Secretary Arne Duncan is dangling $3.4 billion in front of states in his Race to the Top initiative to spur reforms such as New Jersey's.

Some of this is like homecoming day for Schundler. It was his dogged but unsuccessful fight for vouchers in the early 1990s when he was mayor of Jersey City that earned him credibility as an education reformer. Later he started one of the country's early charter schools. Today much of the thinking on education reform has caught up with him. Says he: "There's a moral imperative to do what's right for kids and not worry about the political resistance."

—John Koppisch

and police costs. "We spend more on curriculum development, leadership development, and we try to spend a lot less on purely bureaucratic roles," says Max Polaner, a former McKinsey & Co. consultant and member of the Polaner jelly family who serves as Achievement First's $130,000-a-year chief financial officer.

The organization's $34 million New York operation will break even this year, Polaner says, except for $200,000 in startup costs for two new schools. Ninety-six percent of its students passed the 2009 state achievement tests, compared with 82% statewide and 71% in the districts where they're situated. In Connecticut, where the state pays Achievement First 75% of what it gives urban school districts, the group runs the second- and third-best schools for African-American student performance; its Bridgeport middle school led the state last year in student improvement.

These results mean something to portfolio managers beyond school chancellors: to capitalists like Bill Gates, whose foundation has poured $5 billion into public education, including $2 billion in scholarships. Chicago billionaire Jay Pritzker has donated $17 million to the cause, driven partly by research showing that improvements in education yield positive economic returns via reduced crime and higher productivity. "I've seen thousands of business plans and invested in over 50 companies, and just scattershot spending money doesn't work," says Pritzker. "It's testing, watching it, seeding a little more—all those steps tell you whether you should put the big dollars behind it." Cisco Systems, Google and billionaire Michael Dell's foundation are backing the School of One, for example, an experiment in New York City public schools where students receive their lesson plans on airport-style overhead monitors in the morning according to how they performed on a quiz the afternoon before.

Now used in math classes in a Manhattan middle school, the School of One approach allows teachers and administrators to choose among computer instruction, traditional classes or even remote tutoring to keep students on track. In a trial run last year students scored 42% to 70% higher on math tests after participating in the program, says Joel Rose, a former middle-school teacher who runs the New York City Department of Education experiment. If it works, "and that's still a big if," Rose cautions, "our model is quite scalable because all the analytics can be done centrally with cloud computing."

At Wireless Generation in Brooklyn software engineers are working with Achievement First to build a commercial version of the software that the charter operator uses to monitor student and teacher performance. Operating out of stylish offices in the shadow of the Manhattan Bridge in Brooklyn, the 350-employee firm will take in $65 million in revenue this year and is growing at a 20% annual rate. It has contracts with schools in all 50 states—including school districts in Chicago and Washington, D.C. and the entire state of Indiana—and has compiled 3 terabytes of data it uses to refine teaching methods for subjects like reading and math.

"Education is in a revolution of sophisticated analysis of the data set," says Larry Berger, Wireless Generation's founder and

THINK COLLEGE

Roughly 95% of the 300 students at Think College Now, an elementary public school in Oakland, Calif., qualify for a subsidized lunch. English is a second language for 60% of kids. It is in a gritty neighborhood, in a city where 68% of students graduate from high school and only 30% go on to college. At the end of 2003, this school's first year, 10% of kids spoke English at grade level. Only 23% were math proficient. Yet last year 66% qualified in English, 81% met the state math standard and the school is on track to hit a 90% goal in 2012. TCN's score on a state academic test was 848, compared with 790 statewide and 695 for the Oakland district. The school's first class goes to college in 2012.

The secret is unapologetic ambition and focus. That's backed up with frequent testing, transparent results and quick intervention when someone drifts off the plan. "Kids in poor neighborhoods are held to a low standard," says principal David Silver, 36, who started the school in the fall of 2002 as part of a "small schools" initiative in Oakland. "We make it clear to them that there are standards, and we give them a way to meet them." The goal is to have everyone attend college.

Hallways, notebooks and T-shirts bear emblems of various colleges. In one fourth-grade classroom students are divided into groups named after Ivy League schools, and there is a sign on the wall that says, "Am I making college-bound choices today?" There are the names of kids who showed the school values of respect, responsibility, self-examination, focus on goals and *ganas*, or unceasing teamwork. In each grade every student's test progress is on posters and charts, along with writing samples. There is an all-school challenge to read 100 million words at home this year (winners get to shave Silver's head). All this costs. Because TCN gets less than $6,500 per pupil, like other Oakland schools, it has raised $1 million or so from individuals, community groups and corporations.

Teachers meet with administrators every six weeks to review progress. Any fall in scores is targeted for reinforcement. New parents are told to drop their kid off at 8:25, then stay and read to them for ten minutes. That cannot be enforced in a public school, of course. Most stay, thanks to a vigilant parents' organization. There are classes for moms and dads to learn English, and information on colleges and financial aid, even though that is still seven years away. "It is a culture where everyone is working towards it," says Silver. "If a parent tells me he can't volunteer because he has to work, I'll ask if I can call his boss to see about time off."

—Quentin Hardy

chief executive. When a student stumbles, "alarm bells go off early in kindergarten, and they go off with the precision that comes from tracking performance every two weeks." A Yale graduate and Rhodes scholar, Berger started the company in 2000, when "the belief was we would put the student in front of the computer and the computer would do all the work." That idea has shifted, he says, with companies like Wireless Generation functioning more like the electronic helpers that work behind the scenes in the medical industry, planning schedules and warning doctors against dangerous drug interactions.

For $12 to $25 per student per year, Wireless Generation provides software that lets teachers regularly evaluate students for reading proficiency and math skills. Using Palm handhelds or Web browsers, teachers can input results of, say, a kindergarten reading comprehension test that requires students to pronounce three-letter nonsense words. The software can differentiate causes of failure, distinguishing between students who are too slow and those who make errors; it can also flag kids who don't blend letter sounds together. Then it prompts the teacher to group children at similar developmental stages together and provides proven instructional techniques for their particular problems. Instead of being a cudgel to discipline teachers whose students fail to make the grade, software is becoming an efficiency tool to make them more effective. "It's the same as Google," says Berger. "Optimize small things about the user experience to get big results."

> "We spend more on curriculum development, leadership development, and we try to spend a lot less on purely bureaucratic roles."

Can best practices be replicated across America? "It's pretty much the same recipe you would have had putting a school together in 1910—an execution-based model," says Frederick Hess, a scholar at the American Enterprise Institute and author of *Education Unbound* (ASCD, 2010). He has doubts. "It's bumping up against natural limits." Whereas Wal-Mart can achieve superior results with the workforce it finds in any region, Achievement First and its peers rely on young, inspired teachers coming out of training programs like Teach for America.

Achievement First hires its teachers under one-year contracts and pays them 15% to 20% more than their union counterparts, although the staff works 10-hour days and a longer school year. (The most experienced teachers can earn $85,000 or more, and McCurry and Toll each earned $154,000 in 2008, the most recent year for which the organization's financials are available.) Roughly 10% to 15% of its teachers quit each year; another 5% or so are fired for poor performance, compared with 9% attrition and 4.4% dismissal rates for public schools.

McCurry says the teachers at the oldest school, Amistad, are among the most experienced and highest paid in the organization, suggesting he doesn't have trouble retaining talent. But

FIRE BAD TEACHERS

Sam Houston High School used to be a dropout factory: 40% of freshmen never made it to senior year; only half of its students (93% of them Latino, 4% black, overwhelmingly poor) passed standardized math and science tests. In 2008 the Texas Board of Education took control, splitting the place in two, with ninth graders in their own school. Students had to take twice as much math as before, two hours a day. Most important, 3 out of 4 teachers—125 of them, virtually all ineffective math and science instructors—got canned or reassigned. Texas has no teachers' union; contracts can be terminated for "good cause."

Giving teachers the bad news "was the worst day of my career," says principal Jane Crump. But maybe the best day for the school. Crump, 47, was appointed two months before the start of the 2008–09 school year. In hiring replacements, she rejected any applicant who even mentioned the $2,500 in annual hazard pay the district pays Sam's faculty. Many new teachers are young and as zealous as she: "Their hearts brought them here, a calling to do the Lord's work."

Optimistic parents voted to call the ninth-grade school Sam Houston College Preparatory Academy and the upper divisions Sam Houston Math, Science & Technology Center. Fancy names aside, they're conventional high schools. Students decide whether to get on the college track and enroll in AP courses, or train in an expanded vocational program (cosmetology, plumbing, auto repair and biomedical testing among them).

Whatever they choose, they still do two hours of math a day. (Reading and English were already a strong suit.) Crump says students complain they'll never use math after graduation. "They might think they don't," says Crump, who started out as a math teacher, but learning math means learning to think.

Brass rings include scholarships funded by DeVry University and $800,000 from Project Grad, a nationwide nonprofit, all reinforced by morning announcements over the PA system ("Do you want to win a $4,000 scholarship?"). Crump has brought students together with guidance counselors and has appealed to parents, too. Sam's adult classes in English, citizenship and computers are full.

First-year results? The percentage of students passing the Texas standardized math test went from 50% to 65% and the science test from 51% to 62% (outpacing slight gains statewide).

Disciplinary actions declined from 7,000 in 2008 to 3,690 in 2009. SAT scores have sagged—because Crump insists more kids take the test. In 2007 only 16 took classes that generated college credit. Last year it was 163. Sam Houston graduated 411 out of some 500 last June, 100 more than the year before. *—Christopher Helman*

Hess thinks the talent gap will hit charter operators before long, leaving technology like that offered by the School of One as the only way to spread the learning revolution across the country.

"Scaling up without losing quality is a huge issue for charter operators," says Christopher Williams, senior program officer with the $35 billion Bill & Melinda Gates Foundation. Searching for better results from the nation's existing stock of public-school teachers, the foundation is investing in high-tech means of collecting data on pedagogical methods. One $45 million program has mounted panoramic video cameras in 3,000 classrooms in six states. Outside experts monitor teachers and students four times a year and match their observations with test data to discern what works best. "One problem is nobody has performance metrics everybody can agree upon," says Williams.

Chancellor Klein is determinedly upbeat. "When people said, 'You can scale this to 20 or 30 schools but no further'—well, we're at 100 [charter schools]. The people opposing it are the unions, not because it *can't* scale but because it *can*."

> "Just scattershot spending money doesn't work. It's testing, watching it, seeding a little more—all those steps tell you whether you should put big dollars behind it."

Education pays. James Heckman, a University of Chicago economist and 2009 winner of the Nobel Prize, has spent much of his career studying this point. Heckman is a realist about the challenge that public schools confront. "Most of the gap in test scores is there at age 5, before they enter kindergarten," he says. But when schools do make up for lost ground, they get a giant payoff. A high school diploma, Heckman and others have shown, is worth $11,600 a year in incremental salary.

That income differential represents more than just the "sheepskin effect" of a diploma; some of it comes from the innate difference in intelligence of high school grads versus dropouts. But Heckman has concluded that graduate equivalency degrees confer almost no benefit, because GED holders, who are presumably equally intelligent, tend to be "wise guys" who lack attentiveness and discipline. In addition to learning concrete skills in math and computers, high school grads acquire other skills, such as the habit of showing up on time.

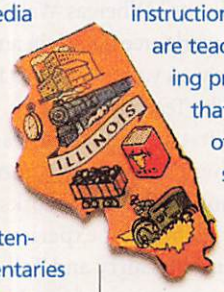
Heckman goes on to estimate society's interest in increasing the number of high school graduates at $1,500 to $3,000 a year per student, mainly reflecting the lower rates of incarceration and jail costs of graduates. (He ignores the actual cost of theft, because the goods remain in the economy.)

It's lamentable how many defective products the U.S. education industry sends out of its $660 billion factory. But it's encouraging to see that there are ways to boost the output. **F**

TECH AND TEACHING

The one-on-one computing program at Carter G. Woodson Middle School, a two-year-old public charter affiliated with the University of Chicago, puts a 13-inch Apple MacBook in the hands of every one of its 350 students to use in class and at home. A new Stanford University study shows that these Chicago students, 99% of them black, outpace their peers at a Silicon Valley middle school in most realms of computer literacy, including blogging, computer programming and digital filmmaking. Woodson's kids do a decent job navigating the old world, too. In math 78% of eighth graders met or exceeded state standards, compared with a normal rate of 71%; readers beat their peers 73% to 68%.

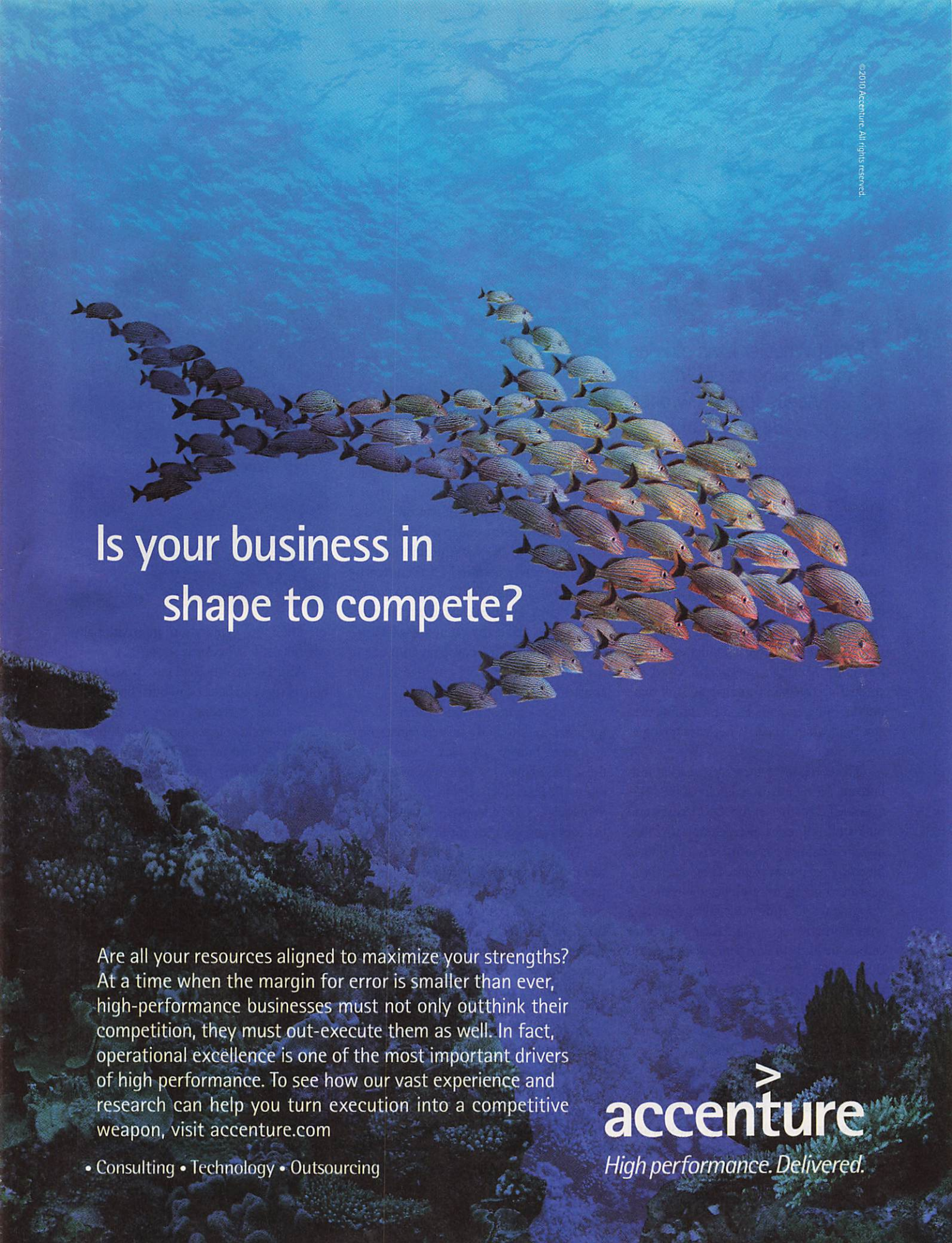
"Being literate is no longer just knowing how to read and write," says Jared Washington, Woodson's director. In May eighth graders virtually dissected a frog and crayfish on their screens before doing it for real. In a digital media class sixth graders form record companies—recording, marketing and planning the enterprise on their Apples. Seventh graders produce ten-minute digital documentaries in lieu of written history reports. More than 40% of students take afterschool programs for robotics, music composition and game design. Parents pay $300 a year to help with computers and two full-time technicians. The school gets four applicants for every spot; a lottery decides the winners.



Helping administer the tech savvy are a handful of teachers minted at the University of Chicago's Urban Teacher Education Program, a five-year-old course. Teachers spend two years in front of students before they graduate, compared with one semester or less in many programs. New graduates receive at least three years of support from the university in the form of seminars, cohort meetings and counseling sessions with professors. Grads stick with it. Nationwide 50% of teachers leave the profession within five years; in tough urban schools 80% flee after three years. The five-year retention rate for the U. of C.'s program is 96%—and all its graduates teach in urban public schools, mostly in Chicago.

Urban Teacher accepts only 25 applicants a year. Beyond frontline training, it stresses evidence-based methods in the classroom. Teachers watch videos of themselves and colleagues to find what works—and how to knead effective practices into their own instruction. "Many programs are teacher mills generating profit for universities that they can sink into other programs," says Timothy Knowles, director of the Urban Education Institute, which oversees the U. of C.'s charter schools and the Urban Teacher program. "That creates perverse incentives for schools to keep grinding more and more teachers out, no matter what it takes."

—Christopher Steiner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Beyond Coal And Oil

Foster Wheeler is an old dog that is good at old tricks. It needs some new ones.

By Jonathan Fahey

New Chief Bob Flexon and company savior Ray Milchovich. Below, a section of an LNG terminal Foster Wheeler is building.

ROBERT FLEXON, 51, WAKES UP AT 4:30 every morning to exercise with Russian kettlebells, the better, it seems, to deal with the heavy lifting that awaits him. On June 1 he takes over as chief executive of Foster Wheeler, the engineering company that recently moved its headquarters to Geneva from New Jersey. For one thing, Flexon succeeds a lionized chief executive, Raymond Milchovich, 60, who saved the company from bankruptcy in 2001. If that's not daunting enough, Flexon is taking over at a time when Foster Wheeler is trying to figure out its next act.

The company, which earned $350 million on $5 billion in sales in 2009 (87% overseas), breathes carbon. It designs and builds oil refineries, petrochemical plants, liquefied natural gas terminals and boilers for coal-fired power plants. These megaprojects aren't going away, especially in the developing world. But politicians' infatuation with alternative energy and their distaste for carbon are likely to slow demand for the stuff that Foster Wheeler knows best. The company's shares trade in lockstep with the price of oil and at a discount to more well-rounded (but less profitable) competitors Jacobs Engineering and Fluor.

Says longtime board member and former Goldman Sachs chairman Eugene Atkinson: "We are highly dependent on a narrow segment of the energy market, and we need to broaden our offerings. And it's not so obvious what's out there."

Foster Wheeler went through a bigger crisis at the turn of the century, when a series of costly power plant contracts led to the company's near collapse. Milchovich, brought in from Kaiser Aluminum in late 2001, narrowly avoided bankruptcy by convincing ExxonMobil, a big customer, not to defect. He then cleared out the executive ranks, fixed the company's balance sheet and turned the company into one of the most profitable big engineering and construction firms in the world.

Milchovich tried to retire a year ago, but the board couldn't find a suitable replacement and asked him to stay. Flexon was among those passed over, but he agreed to leave his job as finance chief at NRG to run Foster Wheeler's U.S. division, where he was to learn the ropes and compete for the top job.

The attributes that made him good at turning the company around, Milchovich protests, make him bad for coming up with a new plan. "When you're a turnaround person, you tend to be conservative," he says. "Bob needs to broaden our thinking [and] figure out what we need to be next."

Flexon has some thoughts. He wants to continue a plan started under Milchovich to expand Foster Wheeler's limited expertise in building equipment for oil and gas exploration projects. As oil gets harder to find, more money will be spent trying to find it. Foster Wheeler has made two small oil-exploration acquisitions recently and says it has another target in mind. (Flexon doesn't believe the Gulf of Mexico disaster will slow spending on exploration internationally, where Foster Wheeler is strongest.)

Also, Foster Wheeler builds power plant boilers that can be used to burn biomass as well as coal. It recently won a contract to build the world's biggest biomass-only power plant, a 190-megawatt station in Poland. It is also developing boiler designs that will allow for easier carbon capture. Nitrogen is separated from oxygen before combustion, thereby reducing the volume of exhaust gas and making the exhaust easier to treat by preventing the formation of polluting nitrogen oxides. Flexon also thinks there could be a future in building plants that turn natural gas or coal into diesel or gasoline.

Flexon has other ideas he declines to share, but he says he's interviewing and hiring new talent already. "I want to get up and running immediately," he says.

Foster Wheeler could hedge its exposure to fossil fuels by buying its way into the business of building nuclear power or desalination plants. Milchovich was unwilling to spend the capital. Flexon may have to. "When Bob comes in, everything will be on the table," says Andrew Kaplowitz, an analyst at Barclays Capital. "It has to be." F

JUSTIN STEELE FOR FORBES

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Victories in Capitalism

U.S. DEPARTMENT OF COMMERCE
MBDA
MINORITY BUSINESS DEVELOPMENT AGENCY

How Minority-Owned Enterprises Are Helping Revitalize America's Economy Through Global Growth

By Nicole Whitsett

When you see McDonald's glowing golden arches rising above a highway, you might initially think of hamburgers and fries, but from an economic standpoint, that sign represents much more. In fact, a leading producer of those steel sign and lighting poles is a Hispanic- and woman-owned firm that is just one of many diverse companies driving America's economic recovery.

Founded in 1925, Funk Linko of Chicago Heights, Ill., manufactures sign poles for major oil companies, fast-food operations, hotels, car dealers, airports and municipalities around the world, making it a leader in its industry. Over the last year, as the U.S. endured some tough economic times, Funk Linko continued to diversify and reach new markets through exporting. As the premier pole manufacturer for the oil industry, it has supplied every American petroleum company as well as their global affiliates and owners.

Vicky Linko, the President and CEO, points to Funk Linko's lighting and signage work at Chicago's O'Hare Airport as the company's "forest of poles." She believes a key element to taking a business global is changing one's perspective to see the big picture. "In the domestic market, you focus solely on your specialty and grow the business one customer at a time. To be a global enterprise, you must think broader," she says. To that end, Funk Linko is constantly evolving to seize opportunities where they arise. The company has incorporated green technology into its overall business practices, and has expanded into new arenas, like the rail and locomotive industry. Adds Linko: "There is nothing we cannot achieve, if we have the passion to achieve it, and the vision to see it."

A Strategy for Success

The Obama administration firmly believes that exporting will jumpstart the American economy and create new jobs. In March of this year, President Obama and Secretary of Commerce Gary Locke unveiled the National Export Initiative (NEI), a plan designed to double American exports over the next five years and support 2 million jobs.

"This initiative was designed with one overriding goal: to get people back to work in jobs that provide security, dignity and a sense of hope for the future," says Secretary Locke. "Under the NEI, there is going to be more credit available for exporters, a sharper focus on knocking down the barriers that prevent U.S. companies from getting access to foreign markets, and more government trade promotion."

The Minority Business Development Agency (MBDA), a bureau at the U.S. Department of Commerce, has long recognized the unique benefits that minority-owned firms offer as exporters. As the only agency that supports the growth and competitiveness of minority-owned firms in the U.S., MBDA plans to ensure it contributes significantly to the success of the NEI.

"To support minority-owned firms' interest in exporting, MBDA will provide business-to-business networking sessions to link minority-owned firms to global opportunities," explains MBDA National Director David A. Hinson. "Through relationships with the International Trade Administration, OPIC, the Export-Import Bank and various other government agencies,

our business development specialists at one of our nationwide minority business centers will work together with firms to put an export strategy in place."

Powering Emerging Markets

Many minority-owned firms have already established themselves as successful exporters. These companies are more than twice as likely to generate sales from exporting as non-minority-owned firms, according to MBDA. For example, Combustion Associates, Inc. (CAI), of Corona, Calif., specializes in finding pioneering ways to power business in far-flung reaches of the world. The company combines science and service to provide a wide selection of both skid-mounted and stationary power generation systems. This kind of innovation is particularly relevant because it is designed to meet energy demands anywhere, no matter how big or how small.

"We currently engineer and manufacture modular power plants ranging from 1 MW to 10 MW, and in the emerging markets of the world—Asia, Africa and Central and South America—there is a huge demand for power," explains Kusum Kavia, Vice President of CAI. "Our units give flexibility to both large utilities that need to meet increased demand and to businesses so they don't have to rely on the grid or pay high prices for electricity during peak periods, because they have their own reliable power generation unit in-house."

CAI not only exports, but also is expanding into the energy industry and meeting the growing need for cost-effective energy in emerging markets.

Plan for Global Growth

As exporting becomes a growth strategy for many companies, MBDA recommends that minority-owned firms:

- Look at industry trends and know their position within the domestic market prior to establishing an international business strategy
- Research global markets for their products and services
- Determine the effects of exporting on their current operations
- Outline what resources they will need to successfully execute their export strategy
- Familiarize themselves with various global distribution channels
- Contact an MBDA Minority Business Development Center for assistance (www.mbda.gov)

This approach has worked successfully for MarkMaster, Inc., the largest custom marking and identification company in the world, as well as the only global provider in its industry. Based in Tampa, Fla., the Hispanic family-owned business handles all aspects of professional signage and marking, assuring branding continuity, simplified project management and seamless implementation. As with many businesses, MarkMaster, Inc., began to establish an international presence in order to keep up with its clients.

"Expanding globally was a natural progression relative to our client base," says CEO Kevin Govin. "Most of our major corporate clients are in various stages of being globalized. As a trusted supplier, they wanted us everywhere. Once we began manufacturing abroad for the first client, it was simple to leverage that investment to the rest of our client base. Now it is a definite advantage, as we are the only supplier in our space that can fulfill in the U.S., Europe, the Middle East, Africa and Asia."

BDR
BILLION DOLLAR ROUNDTABLE
Corporate Supply Chain Diversity

Spending More Than $1 Billion With Minority Businesses

The Billion Dollar Roundtable (BDR) — a key MBDA strategic partner — is a group of 17 corporations that spend at least $1 billion annually contracting with minority- and women-owned firms.

"Together, the members represent tier-one spend in excess of $39 billion and tier-two spend of almost $10 billion," reports Sharon Patterson, BDR's President and Chief Executive Officer. The BDR also issues policy papers and pronouncements and sponsors a prestigious annual gathering to drive supplier diversity excellence through best-practice sharing and thought leadership.

Web Directory

Billion Dollar Roundtable
www.bdrusa.org

Cargill
www.cargill.com

The Home Depot
www.homedepot.com

Minority Business Development Agency (MBDA)
www.mbda.gov

"To support minority-owned firms' interest in exporting, MBDA will provide business-to-business networking sessions to link minority-owned firms to global opportunities."

David A. Hinson
National Director, MBDA

Cargill's Secret Recipe:

Big Business, Smaller Suppliers, Innovative Solutions

Roger Larsh
North American
Procurement Leader
Cargill

Evolving in Tough Times

For nearly a decade, Cargill has made supplier diversity a key initiative, and what began as an effort to nurture fledgling enterprises has proven to be an excellent example of good foresight. Now the company works with more than 2,500 diverse suppliers around the world, and in lean economic times, those partnerships have grown stronger than ever.

"We're very dependent on each other to be successful," says Roger Larsh, Cargill's North American Procurement Leader. "That's always the case, but in tough economic times, it's even more so."

Naturally, the recent financial turmoil has taken its toll on small businesses, but Cargill's relationships with its diverse suppliers have evolved in ways that can help all parties thrive. "The economic downturn had a definite impact on smaller businesses' access to capital, and that forced us to look at the way we nurture and develop our suppliers," says Larsh. "In an environment where capital is very tight, we try to take more measured steps to grow our business with our diversity partners so we don't overwhelm them. This approach allows them to manage their business in a way that's beneficial for them and for Cargill."

Creativity and Flexibility

A more significant development has been the invaluable return on investment that Cargill is now seeing. While the company's size gives it the foundation it needs to weather a recession, it can benefit from the flexibility and responsiveness of its smaller diverse partners to help it meet the needs of its clients and take full advantage of any opportunities those partners may present.

"We receive creative solutions that we wouldn't otherwise think of, or that a lot of majority companies couldn't even execute. These suppliers often aren't encumbered by their business process or business model, and they're willing to listen to us."

One specific example of tangible benefit came from a diverse supplier that set up warehouses strategically located near Cargill facilities, essentially taking over its inventory function and minimizing the amount of inventory Cargill has to hold. "It demonstrates how their flexibility can reduce our need for working capital," Larsh explains.

A Key to Success

Ultimately, Cargill's objective is to always provide the best solutions for its clients, as well as its customers. With its diverse suppliers stepping up to provide fresh ideas and much-needed support, Cargill has achieved that goal. Known for driving innovation in its industry, Cargill's commitment to leveraging diversity to the fullest is yet another forward-thinking strategy to keep it ahead of the curve, no matter what challenges it encounters.

> "In an environment where capital is very tight, we try to take more measured steps to grow our business with our diversity partners so we don't overwhelm them."

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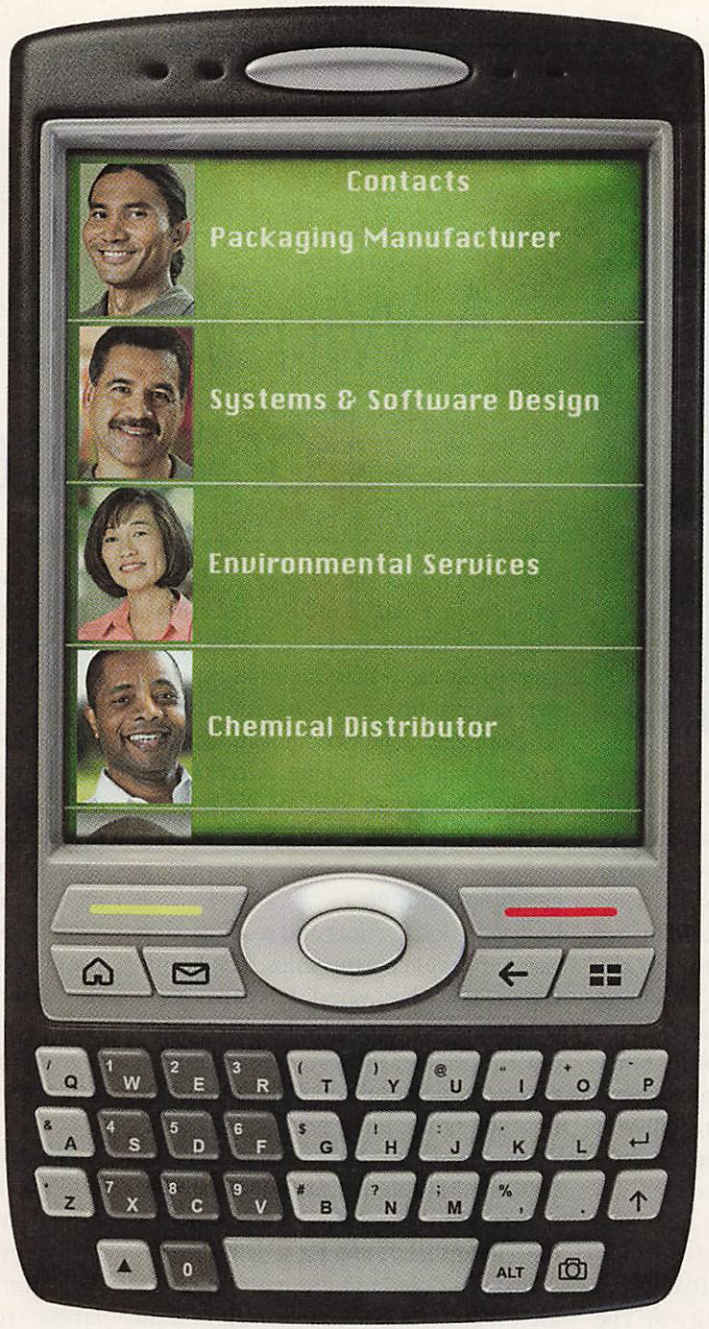

Successful businesses call on a diverse network of suppliers.

Cargill works with customers around the world to deliver solutions in food, agriculture and risk management. We call on diverse suppliers across the supply chain to provide innovative products, services and insights. A commitment to supplier diversity isn't just good for our business; it adds value for our customers and promotes prosperity in communities where we live and work. To learn more about Cargill's Supplier Diversity Initiative, visit www.cargillsupplierdiversity.com.

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The Home Depot:

A Win-Win Strategy For Success

Michelle Sourie Robinson
Director of Supplier Diversity
The Home Depot

In 2003, The Home Depot became the first major corporation in the home improvement industry to develop a comprehensive supplier diversity program as part of its overall business strategy. More than an act of good corporate responsibility, the initiative also reflected the changing demographics of The Home Depot's increasingly diverse client base. Since its inception, the award-winning program has proven to be a clear win-win proposition, with new rewards continuously emerging over time.

"Our relationships with our suppliers are now truly strong partnerships," says Michelle Sourie Robinson, Director of Supplier Diversity at The Home Depot. "This is much more than a simple contract—it's a partnership for a mutually beneficial end."

Investing in the Future

As America's largest home improvement retailer, The Home Depot also knows that investing in entrepreneurship is one way to support the many diverse communities it serves. To that end, the company stays connected with small businesses through its national membership in the Women's Business Enterprise National Council (WBENC) and the National Minority Supplier Development Council (NMSDC).

It also created the George A. Lottier Scholarship Fund, a unique, no-strings-attached endowment of $125,000 earmarked each year for minority and women entrepreneurs to use for business development. The scholarship can go toward training, coaching, education or nearly anything an MBE or WBE needs to take its business to the next level.

Building Bridges

For every dollar, effort and resource that goes into these partnerships, The Home Depot has discovered it reaps great rewards. "For any supplier, diverse or not, the primary thing we are looking for is value, whether through an innovative product, or excellent pricing on a quality product or service," Sourie Robinson explains. "But the other important piece that is often overlooked is the fact that these suppliers enhance our brand."

In diverse communities, entrepreneurs are often the driving force behind local consumer trends. The Home Depot has developed a novel strategy to extend its reach and gain valuable access by tapping into this targeted power. These brand ambassadors understand the unique needs and challenges of their customers, and can bridge divides of culture, language and more. They also provide specific expertise and resources that allow The Home Depot to run its business more effectively as a whole.

One such exemplary partner is Metasys Technologies Inc. (MTI), an Atlanta-based company that has been a strategic supplier to The Home Depot for more than five years. MTI initially was brought in to streamline the purchase order and supplier-enablement processes; however, over time, it began to take on more.

Leveraging its supply chain management expertise and its global outsourcing infrastructure, MTI has delivered cost savings and process improvements that directly impact The Home Depot's bottom line and the quality of its relationship with its suppliers.

"These types of successful diversity programs help its supplier partners shine, which results in increased visibility for such corporations in the communities where we live," says Metasys CEO Sandeep Gauba.

A Working Relationship

Today's tough economic climate has forced even the largest companies to reevaluate the way they do business. The Home Depot, ranked as the third-largest retail company on the 2010 Forbes Global 2000 list, has found that through its partnerships with minority- and women-owned businesses, it can stay ahead of the competition, not only through better products and services, but also through vital connections with diverse customers and communities. In a rare example of collaboration at its best, this winning strategy benefits everyone.

THE HOME DEPOT

www.homedepot.com

FROM SWATCHES TO SUPPLIERS, DIVERSITY IS OUR STRENGTH.

At The Home Depot, our suppliers are as diverse as everything we do: from the wide variety of services we provide to the vast array of people we interact with. And we're fully committed to building powerful partnerships with diverse businesses. If you'd like to become part of our vision, or for more information on our Supplier Diversity Program, call 1-866-SD-AT-THD (732-8843), or log on to www.homedepot.com/supplierdiversity.

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Snake Oil In Your Snacks

Foods masquerading as drugs have become a $160 billion business.

By Matthew Herper and Rebecca Ruiz

ILLUSTRATION BY JONATHAN CARLSON FOR FORBES

PROBUGS, A YOGURTLIKE BEVERAGE FOR KIDS, is tasty, fun and good for your child's digestive system, if claims from its maker, Lifeway Foods, near Chicago, are to be believed. Sold at high-end stores like Whole Foods, it comes in flavors like Sublime Slime Lime and contains a hefty dose of 7 billion to 10 billion good bacteria that "inhibit the growth of harmful bacteria" in the gut, according to Lifeway's website. The label promises ProBugs will give bad germs "a time-out" and adds: "You can never have too many good bugs."

You'd never guess from the breathless marketing that when Lifeway tested ProBugs in a clinical trial, it failed spectacularly. In the study a daily dose of ProBugs did nothing to reduce the incidence of antibiotic-associated diarrhea in 125 young kids. Nor did it impact measures like stomach pain or missed days of school, according to the results published by Georgetown University researchers in a medical journal last August. Only the sickest kids showed a hint of a benefit.

When a drug flops doctors prescribe it less and insurers stop paying. But Lifeway continues to tout ProBugs' digestive benefits as if nothing has happened. It put out a press release about the failed study, claiming ProBugs "may have a positive effect on reducing antibiotic-associated diarrhea."

"Probiotics can help so many children," swears Lifeway Chief Executive Julie Smolyanski, referring to products containing protective bacteria. Her company, with $58 million in annual sales, doesn't have enough money to do another trial, she says. She accuses Georgetown of botching the study by confusing which patients got ProBugs and which got a placebo. Lifeway has refused to pay any more bills for the study. Georgetown stands by the findings and says Lifeway had no complaints until the results came in.

Foods masquerading as drugs are the hot spot in the packaged-food business. The world's biggest food companies are stuffing ostensibly beneficial bacteria, omega-3 fatty acids and other additives into packaged foods. They are funding clinical research in order to justify health claims—often deliberately vague—that blur the line between nutrition and medicine. The foods promise to boost immunity, protect your heart and digestive system or help you sleep. In some cases, like the ProBugs kefir, manufacturers aren't adding new ingredients but merely repackaging old foods with bold new health claims.

More than 2,000 so-called functional food brands generated $31 billion in U.S. sales in 2008, up 14% from 2006, according to the market researcher Packaged Facts. Globally, it is a $160 billion business. Sales are growing at a 7% annual clip. This includes $4 billion spent on yogurt with high doses of "probiotic" bacteria; $1.8 billion on breads and other foods with added omega-3 fatty acids; $1.5 billion on fortified cereals and snack bars; $900 million on "energy" (i.e., stimulant-containing) drinks with additives like the amino acid taurine or the herb guarana.

"We're going through a revolution in food," says Thomas Pirko, president of Bevmark consulting, whose clients include Coke, Kraft and Nestlé. "It's a whole new consciousness—every product has to be adding to your health or preventing you from getting sick." If you find the perfect additive, he adds, "you get rich."

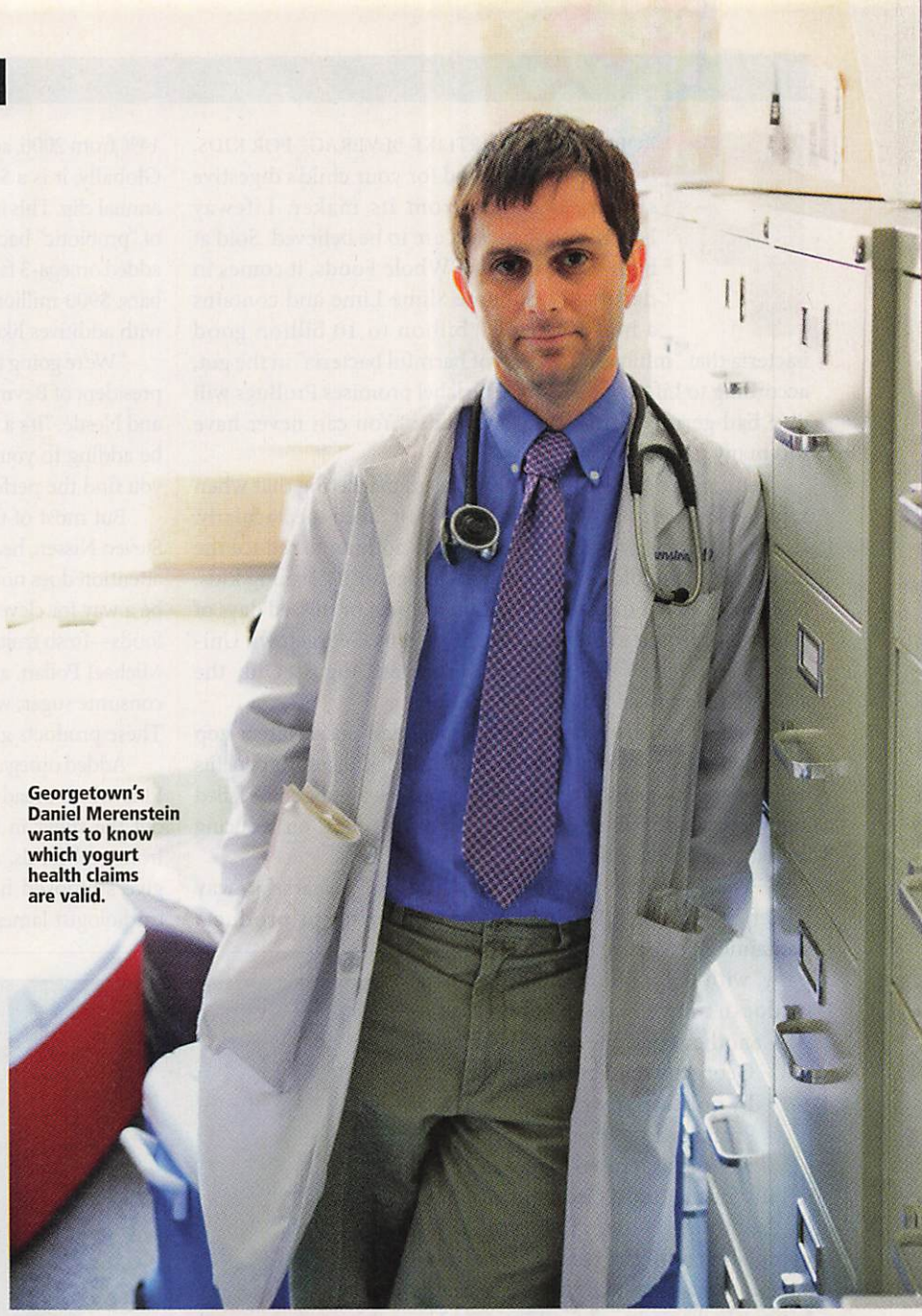
But most of the claims "are completely unsubstantiated," says Steven Nissen, head of cardiology at the Cleveland Clinic. "Medical attention does not come from a Cheerios box." Designer foods can be a way for clever marketers to lure people away from real health foods—fresh fruits and vegetables. "It plays on our psychology," says Michael Pollan, author of *The Omnivore's Dilemma*. "We want to consume sugar; we want to consume fat; we want to consume salt. These products give us an excuse to binge."

Added omega-3 fatty acids don't make Sara Lee's Soft & Smooth Plus white bread into a health food. Extra bacteria don't cancel out the sugar in the yogurt. "People should be getting nutrition from real foods, not from foods that are artificially modified to give supposed health benefits," says University of Wisconsin cardiologist James Stein.

Some of the new products are far-out indeed. Nestlé sells its supplement drink Glowelle for $42 a six-pack at Neiman Marcus. It "is clinically proven to help protect skin" from moderate sun exposure, boasts its website, citing an unpublished 56-patient study. DreamWater, from Sarpes Beverages in Charlotte, N.C., is touted as "the first water that helps you relax and fall asleep." But an independent group, the Natural Standard, concludes there's "insufficient evidence" that one of its main additives gets into the brain. Sarpes Chief Executive David Lekach says the drink works for him. "All I'm doing is delivering very, very commonly bought supplements in a liquid form," says Lekach.

A minority of food additives, like dietary fiber, have solid evidence behind them. But those are the exceptions. The European Food Safety Authority started reviewing food health claims in 2006 and has rejected 80% of more than 900 proposed claims to date. Only 9 of the most recent 416 food claims passed muster. The latest loser is the French multinational Danone, maker of Dannon yogurt, which recently withdrew its application for yogurt health claims that it had been making for years.

American authorities are far more permissive. The 1930s law that created the Food & Drug Administration exempts foods from pharmaceutical-style regulation. A 1994 law allows food companies to advertise how their products affect the normal "structure and function" of the body but not treat disease. Even the FDA admits that the difference is murky: Only drugs can treat Alzheimer's, but preventing absentmindedness is a food claim. Foods can regulate digestion so long as they don't treat chronic constipation.



Georgetown's Daniel Merenstein wants to know which yogurt health claims are valid.

If drug companies made so many claims with so little evidence, "they would be fined," says Georgetown University physician Daniel Merenstein, who did the study of Lifeway's good bacteria. The FDA is starting to crack down; it went after General Mills last spring for saying Cheerios can lower cholesterol. But the FDA also makes it hard for companies that want to rigorously test foods, Merenstein says. It often insists that foods already on supermarket shelves be treated like drugs and run through a gauntlet of preliminary studies before large-scale human studies can begin. He says he recently had a drug trial approved in two weeks, while a probiotic one took 20 months.

Merenstein just finished a 638-child, Danone-funded study that showed DanActive, another yogurt drink, reduced infections by 19% in young kids. It had no effect on missed days of day care. "The question is, do these things work?" says Merenstein. Getting the answers could take years. In the meantime, here's the evidence—or lack thereof—behind the claims for some of the biggest food categories.

Pomegranate Juice

EVEN CLINICAL-TRIAL FAILURES CAN MAKE GREAT MARketing copy. POM Wonderful, the privately held Los Angeles maker of pricey pomegranate juice ($5 a pint), has spent $32 million funding scientific studies, including trials in 2,500 patients. "We've tried to bring modern science to bear on this ancient fruit," says POM President Matthew

DAVID DEAL FOR FORBES

Tupper. "We're not aware of any other beverage supplement that has the same level of clinical research behind it."

In fact, there's not a single definitive result among studies listed on POM's website. The biggest experiment, with 289 patients, used ultrasound on the neck to test whether drinking pomegranate juice reduced hardening of the arteries in heart patients. It found "no significant difference." (The authors hypothesized that the juice may have helped sicker patients.) Other trials in prostate cancer and erectile dysfunction are more preliminary.

In February the FDA warned POM it was marketing its juice as an unapproved drug and demanded it tone down its sales pitch. The FDA cited all sorts of glowing testimonials on its site, including how the juice saved the life of a cancer patient, made mysterious lumps disappear and helped treat a heart-valve infection. POM says it's negotiating with the FDA.

CHOLESTEROL-LOWERING FOODS

PLANT STEROLS DERIVED from nuts and grains are one of the few food additives with a proved health claim. They can lower cholesterol by up to 10%, human trials have found. Cardiology guidelines recommend them. Brands containing sterols include Promise Activ butter substitute (Unilever), Minute Maid Heart Health Orange Juice (Coca-Cola) and Smart Balance Peanut Butter (GFA Brands).

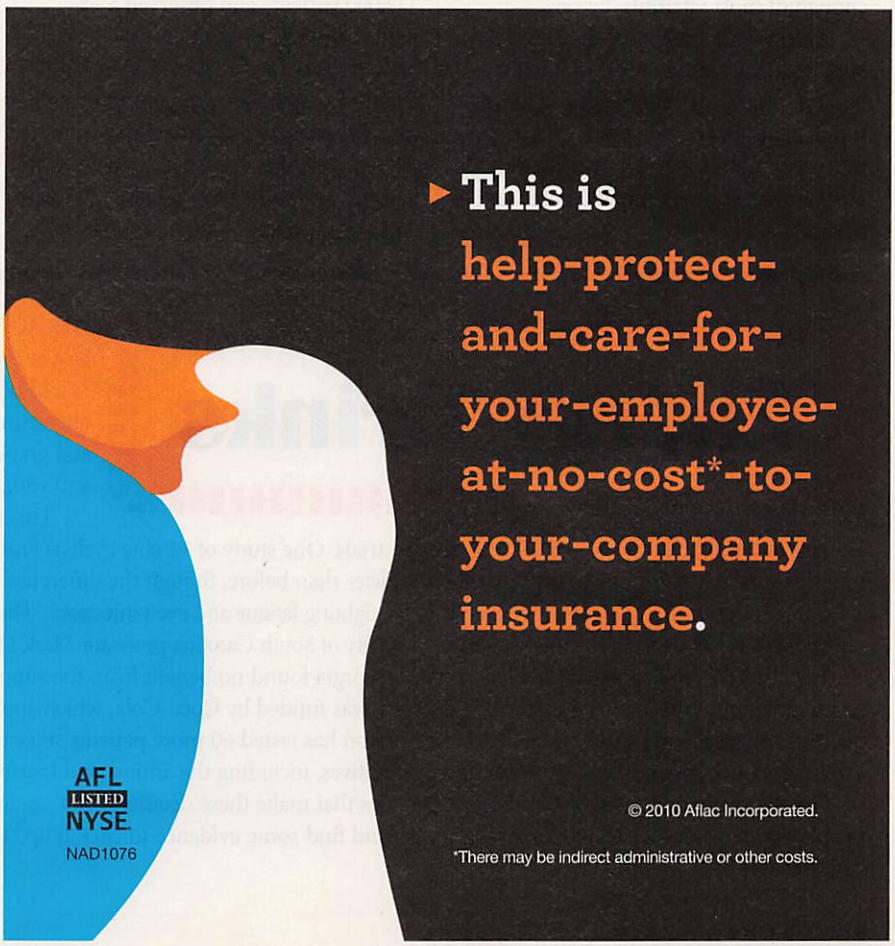
But sterols have never been proved to avert heart disease. "I don't think anyone knows if they prevent heart attacks," says Cleveland Clinic cardiologist Steven Nissen. "There are basic scientists who are worried they don't." Some preliminary data suggest that sterols might harm arteries. In 2006 a small Finnish human study published in *Atherosclerosis* found that sterols keep arteries from relaxing, which indicates worsened blood vessel function. In a 2008 study in the *Journal of the American College of Cardiology,* mice that were fed plant sterols suffered more-severe strokes. The researchers also found evidence that sterols collected in the blood vessel walls of human patients—just like cholesterol. Douglas Balentine, the head of nutrition at Unilever, says the animals in the studies were given massive doses that aren't relevant to humans.

In the wake of these studies, preventive cardiologists at the University of Wisconsin Hospital stopped recommending foods with sterols, says James Stein, UW's head of preventive cardiology. "I don't think a margarine should be considered a health food," he says. For patients who want a cholesterol-lowering margarine, he says, Johnson & Johnson's Benecol is a better choice because it contains plant stanols, which also block cholesterol but aren't absorbed into the body.

Vitamins

VITAMINS HAVE BEEN GETTING GREAT p.r. ever since *Howdy Doody* host Buffalo Bob Smith crowed, "Wonder Bread builds strong bodies eight ways," in the 1950s. The latest fad: lacing sugar water with vitamins and positioning it as a health drink. The concept was dreamed up by entrepreneur and health nut Darius Bikoff, who started selling Vitaminwater in 1996 and sold the brand to Coke in 2001 for $4.1 billion. Pepsi and other beverage companies sell competing versions.

Nutritionists declare that there is no benefit to getting more than your recommended daily allowance of vitamins. "If you ingest what you need, that's fine—and that's it," says Hans Verhagen,



FAR-OUT FOODS Foodmakers are touting bold new health claims for their products. Here's a review

DreamWater

CLAIM: Supplement drink promotes sleep with three additives.

REALITY: The data are mixed at best. One ingredient may not even get into the brain.

POM Wonderful

CLAIM: Pomegranate juice protects arteries.

REALITY: A large study in heart patients showed no effect.

ProBugs

CLAIM: Contains good bacteria that inhibit harmful gut bacteria.

REALITY: ProBugs didn't prevent child diarrhea in Georgetown University study.

Vitaminwater Focus

CLAIM: Contains eye-benefiting vitamins called carotenoids.

REALITY: Most Americans already get enough in their diet.

Activia

CLAIM: Special bacterial strain improves digestion and regularity.

REALITY: It sped intestinal "transit time" and helped symptoms in some studies.

Flax Plus

CLAIM: Excellent source of omega-3 fats.

REALITY: True, but it doesn't contain the fish omega-3s thought to protect the heart.

head of nutrition research at the Netherlands' National Institute for Public Health & the Environment. Westerners get enough of most vitamins, he says.

Excess vitamins can be dangerous. Supplement guru Gary Null claims he became severely ill after ingesting his own supplement that contained 1,000 times as much vitamin D as it was supposed to. He blames a contract manufacturer and is suing them.

But smaller doses may do harm, too. A 2007 *Journal of the American Medical Association* study pooled 68 trials of 232,000 patients and observed a 5% higher death rate among people who took high doses of beta-carotene, vitamin E or vitamin A. A 1999 study of 9,500 patients found that taking 400 international units of vitamin E daily raised the risk of heart failure by 13%. Swallowing enough fortified waters, snack bars and breads could edge consumers toward the upper limits for vitamins set by the National Institutes of Health, worries Marion L. Neuhouser, a diet researcher at Seattle's Fred Hutchinson Cancer Research Center.

Water plus sugar plus questionable doses of vitamins. What's Coke's explanation? It says that Vitaminwater has less sugar than soda and that vitamins' role in health "has been thoroughly documented." It says the doses it uses are safe.

Energy Drinks

WEB ADS FOR FRS HEALTH ENERGY BOAST THE STEELY face of cyclist Lance Armstrong with the caption "Tired of being tired?" The liquid concentrate contains quercetin, a chemical derived from the skins of berries and grapes. The ads claim quercetin is "the only antioxidant clinically proven to boost energy."

This bold promise is based on science done in animals and cells, along with some small human trials. One study of 11 elite cyclists found that those who took quercetin for six months were able to complete a time trial 3.1% faster than before, though the difference compared with a placebo was not significant.

Some scientists say quercetin holds promise for fighting fatigue and even infection. "The science is far beyond almost all of the other nutritional supplements on the market," says University of South Carolina professor Mark Davis, who has consulted for the FRS Company.

But last year researchers at the University of Georgia found no benefit from the supplement in 30 healthy volunteers tested on seven different performance measures. (The study was funded by Coca-Cola, which apparently was thinking of launching its own quercetin supplement.) Lead researcher Kirk Cureton has tested 60 more patients since then, with the same null result. He says there is little evidence backing other popular energy additives, including the amino acid taurine in Red Bull. The exception: caffeine.

"It's the marketing folks within these companies that make these decisions, not scientists," says Cureton. "When the marketing people decide what they want to say, they go try and find some evidence to back it up." FRS says the science behind its supplement is "unassailable."

JOHN KUCZALA FOR FORBES

of the evidence behind some of them.

Promise Activ

CLAIM: Lowers cholesterol.

REALITY: True, but has not been proved to prevent heart attacks.

DanActive

CLAIM: Boosts immunity using good bacteria.

REALITY: It reduced infections in some studies, but effect was modest.

DESIGNER YOGURT

EMERGING BASIC RESEARCH SUGGESTS that imbalances in good gut bacteria may be involved in obesity, diabetes and other ills. Yogurt companies aren't waiting for definitive answers. They're touting all sorts of health benefits to their probiotic yogurts right now.

Danone's Activia ($2 billion in annual sales) contains special bacteria that concentrate in the intestines and, in some studies, decrease the time it takes for food to move through the digestive system. Danone can't claim it treats constipation, but it devised ingenious television ads in which actress Jamie Lee Curtis talks about "digestive issues." "I've just discovered a yogurt that can help," she says in one. An animation—just like the ones in drug ads—shows the good bacteria working in a woman's belly.

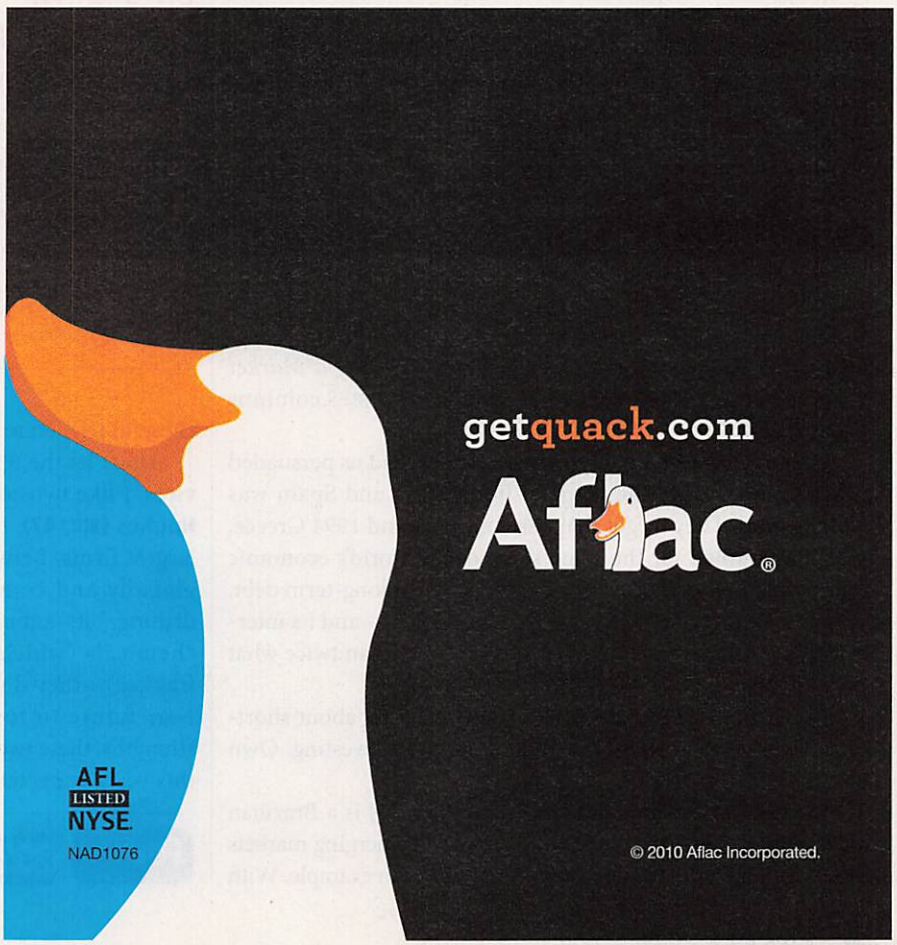
Some human trials of other probiotics show they modestly reduce the incidence or severity of diarrhea in young kids. But it depends on which strain you eat. A 201-patient Israeli study from 2005 showed that two strains, Bifidobacterium lactis and Lactobacillus reuteri, reduced diarrhea in infants. But reuteri was far more effective. "Think about probiotics how you think about antibiotics," says Michael Cabana, the chief of pediatrics at UC, San Francisco. Probiotics are "not interchangeable." But food companies aren't required to say how much of which strains are in their yogurts, and many don't.

Researchers once blithely assumed that any amount of probiotics was safe. Dutch researchers definitively disproved this in 2008 when they administered massive doses of good bacteria to the intestines of severe pancreatitis sufferers. Patients who got the good bacteria were more likely to die, according to results published in *The Lancet*.

OMEGA-3 FATTY ACIDS

EVERYONE KNOWS THAT OMEGA-3 FATTY acids can protect the heart. Less well known: Not all omega-3 fatty acids are created equal.

Most big studies confirming the cardiovascular benefits of omega-3s have tested either docosahexaenoic acid (DHA), an omega-3 found in salmon, sardines and breast milk, or another fish oil called eicosapentaenoic acid (EPA). But many foods that brag about being "an excellent source" of omega-3 fatty acids instead contain alpha-linolenic acid (ALA), derived from nuts and flaxseeds. Because only a small percentage of ALA is converted into EPA and DHA inside the body, it may not have the same heart benefits, cardiologists say. Kellogg's Kashi Almond Crunch cereal says it contains 500mg of omega-3, but it's all ALA. If you want omega-3s for your heart, read the fine print and look for products with EPA or DHA. Kashi says people don't get enough omega-3 and that it makes no specific health claims. **F**



PORTFOLIO STRATEGY

MOUNTAINS AND MOLEHILLS

IT'S SIMPLY ASTOUNDING, AFTER ALL WE'VE SEEN IN recent decades, that anyone pays attention to credit ratings put out by the officially sanctioned rating agencies. As September's annual report (mandated by a 2006 credit rating "reform" law) from the Securities & Exchange Commission documents at great length, there is no competition or improvement in this oligopoly. The big agencies have a way of warning of trouble spots (like Enron) only after the trouble is evident or of adding to a panic (like Greece's) that is already beyond any rational basis.

In other words, Moody's and Standard & Poor's compound investors' worst sins, including the tendency to make a mountain out of a molehill. The fact that investors exaggerate the importance of economic negatives is a theme that recurs throughout my 25 years of column writing for FORBES. And if you want more on that subject let me put in a plug for the recently published *The Making of a Market Guru,* by Aaron Anderson, a survey of my FORBES columns (Wiley, $30).

Until the bailout on May 9 the pessimists had us persuaded that Greece was on the verge of liquidation and Spain was close behind. They forgot that between 1989 and 1994 Greece, which accounted for the same share of the world's economic output that it does today, had not a drachma of long-term debt. It had to finance itself solely on short-term debt—and its interest payments, as a fraction of GDP, were more than twice what they are now.

Panics pass. This one will, too. Stop thinking about short-term market jitters and more about long-term investing. Own stocks like these:

Companhia de Saneamento Basico (SBS, 39) is a Brazilian water- and sewage-treatment firm. Utilities in emerging markets often combine low risk and growth, and this is an example. With 25 million customers, this is the world's third-largest utility dealing with water and should maintain growth of about 10% a year. It's cheap at one times revenue, 70% of book value and six times likely 2010 earnings.

Canada's **Corus Entertainment (CJR, 20)** was spun off in 1999 from Shaw Communications (SJR, which I recommended Nov. 2) and is still controlled by Shaw founder J.R. Shaw. Corus is one of Canada's largest media companies, spanning radio, TV stations, TV content production and book publishing. It has recently lost money, scaring investors, but should turn a profit this year and deliver earnings close to $2.50 a share in 2011. The stock will move ahead of the earnings.

I'll bet Canada's **Methanex (MEOH, 23)** gets taken over before this business cycle ends. As the world's largest, dominant and low-cost producer of methyl alcohol, this $2.1 billion (market capitalization) specialist would fit neatly into many larger chemical firms. It also runs the world's largest fleet of methanol tankers. It follows my theme that this is a good time for basic materials stocks. It sells at eight times 2010 earnings with a 2.7% dividend yield.

MGM Mirage (MGM, 15) is more a roll of the dice than most stocks I recommend, but I like its consumer discretionary exposure. Why now? Gambling hasn't recovered to its prerecession level. But stocks in this sector will price this year on expectations for consumer behavior in 2011 and 2012. MGM is the largest Las Vegas gaming operator, with three of the best properties: the Bellagio, the MGM Grand and Mandalay Bay. It's in lesser gambling regions in the U.S. and in Macau. It's currently losing money and has $13 billion of long-term debt, scaring investors off. But it's cheap at only one times revenue and will look cheap in relation to earnings when earnings return.

Utilities in emerging markets often combine low risk and growth. Take a look at Brazil's Companhia de Saneamento Basico.

Don't let the BP disaster scare you away from oilfield services. I like two companies: **Halliburton (HAL, 29)** and **Baker Hughes (BHI, 47)**, respectively the sector's second- and third-largest firms. Between them they cover the entire spectrum globally and complement each other nicely. Directional drilling, bits, submersible pumps, pressure pumping, oilfield chemicals (which is about to be huge, as shale wells get frakked)—they do it all. There is no valid alternative in the near future to fossil fuels. Considering their future and strengths, these two providers are reasonably priced at 14 times this year's expected earnings. F

Forbes.com

Money manager **Ken Fisher's** latest book is *How to Smell a Rat: The Five Signs of Financial Fraud* (John Wiley, 2009). Visit his home page at **www.forbes.com/fisher.**

SMALL STOCKS

PLEASANT SURPRISES

MY QUEST FOR SMALL-CAP GROWTH STOCKS often turns to companies reporting big earnings surprises. If analysts can't understand the fundamentals of a company well enough to come close to predicting its earnings, then there is a good chance that other investors may be confused as well. They may be overlooking a winner.

The stocks of companies reporting earnings surprises often jump up on the day of the report. While one might assume it's too late to buy after that day, my experience speaks to the contrary. More often than not, when a stock goes up on a favorable earnings report, the price increase only partially reflects the good news. An earnings surprise means that profits were higher than anticipated, but it might also hint at bigger, more important trends as well. Is a new product garnering unexpected momentum in the marketplace? Is the company taking business away from its competitors? Are profit margins expanding?

One earnings surprise is often a precursor of more. It takes time for analysts and investors to fully digest a report and reassess expectations. Assuming the surprise isn't attributable to a one-time event, it may well recast the company. A 20% grower might now be revalued as a 30% grower in the stock market. A company that used to have an 8% net margin is now seen as one with a double-digit margin. As these new realities are digested, the firm's price/earnings multiple is likely to expand. While some of the price gain occurs immediately after the report—a rise in earnings pushes up the price even if the P/E stays put—I have often earned fat returns by buying shares right after good reports and waiting for analysts to catch up. Here are three companies ripe for continued gains following a big beat in their latest quarterly earnings report.

Camarillo, Calif.'s **Power-One (PWER, 8)** makes products that convert direct current electricity from solar panels and wind turbines to the alternating current needed to feed the power grid. The company was expected to report earnings of a penny a share for the March quarter but delivered 4 cents. Revenue grew 56% for the quarter to $152 million. Shares trade for 19 times my 45-cent estimate for earnings over the next 12 months.

Another small company that crushed analyst forecasts for the quarter is **Acme Packet (APKT, 27)**. This Burlington, Mass. company specializes in session border controllers. These electronic devices provide control and security across the edges of two communications networks that carry voice, video and multimedia sessions. Demand for the company's products is surging as enterprises replace legacy circuit-switched networks with next generation packet-based networks. The company reported quarterly earnings of 16 cents a share (before a 3-cent deduction for stock compensation) versus the mean estimate of 10 cents. Revenue was up 65% for the quarter to $51 million. Shares trade for 36 times my forward earnings estimate of 76 cents.

Earnings-surprise stocks often jump up on the day of the report. Some of them keep going up. Here's what to look for.

A litigation settlement with Yahoo and Microsoft led to a huge earnings surprise this quarter for **Acacia Research (ACTG, 15)** in Newport Beach, Calif. The analysts forecast 2 cents a share of net; the result (after noncash compensation and amortization) was 54 cents. Litigation sounds like a one-time win but not for Acacia. The firm buys patents and licenses them for royalties or sues to enforce them. Because of the difficulty in predicting litigation or settlement of patent cases, analysts tend to be extremely conservative in estimating Acacia's earnings. While it's difficult to predict the timing and outcome of specific cases, Acacia has 770 licensing agreements covering 73 different technologies. It thus has ample instruments in its pipeline to generate value over time. I believe that a market capitalization of $500 million is too low for a company whose license fee revenue in the quarter tripled (from a year earlier) to $40 million and has several large cases pending that may lead to a repeat of the quarter's fantastic results. Shares trade for 15 times my forward earnings estimate of $1.

Earnings surprises are great hunting grounds for misunderstood and undervalued growth stocks. By researching this group and sorting out companies with fundamentally improving businesses from those with one-time windfalls, I've found many outstanding stocks that have produced pleasant surprises for my portfolio. F

Forbes.com

Jim Oberweis is president of Oberweis Asset Management and editor of the *Oberweis Report*. For more information visit www.forbes.com/oberweis.

INTRINSIC VALUE

HOW TO SPOT A TRUE VALUE

OLIVER STONE'S LONG-AWAITED *WALL STREET* sequel is set to hit theaters later this year, with Michael Douglas reprising one of the great film characters of the 1980s—corporate raider Gordon Gekko.

Gekko, who so famously proclaimed, "Greed is good," is still probably who comes to mind when you picture a big-time stock market player: connected, impeccably dressed and more than willing to step on the little guy to get what he wants. But in reality many of history's best investment minds bear little resemblance to Gekko. Benjamin Graham is a good example. Another worth mentioning is Joseph Piotroski, who is more like one of the little guys than like Gekko.

Piotroski is an associate accounting professor at the Stanford Graduate School of Business. In my view he's made more of a contribution to the world of stock investing than most of the pundits you hear on CNBC. While teaching at the University of Chicago Booth School of Business in 2000, Piotroski authored a paper entitled "Value Investing: The Use of Historical Financial Statement Information to Separate Winners from Losers." In it he detailed a step-by-step, accounting-based method to buy and short stocks that he found would have produced a 23% annualized return (before trading costs) from 1976 to 1996, more than double the S&P 500's return. The approach works best on fairly obscure stocks—those with low trading volume and little analyst coverage.

Using stock-screening software I have been putting his method to work with real capital. The system continues to work. My firm specializes in copying the strategies of famous investors. The strategy I base on Piotroski's paper has beaten the market by a wide margin over the long haul, and it's doing particularly well this year. A ten-stock portfolio picked with the Piotroski method is up 15.3%, versus 3.6% for the S&P 500.

The Piotroski-inspired methodology starts with unloved stocks, those trading at a low multiple of book value. The bottom 20% of the market by this ratio is an eclectic bunch: Some are solid firms whose shares are beaten down by fear or apathy, while others are simply dogs. To separate the two, Piotroski used his accounting background. He looked for companies with more cash from operations than net income (a sign that they weren't padding net by accruing income or deferring costs). He also wanted a company's numbers to be improving. The return on assets, the current ratio (ratio of current assets to current liabilities), the gross margin and the asset turnover should all be on the rise. And he wanted the long-term debt/assets ratio and number of shares outstanding to be steady or declining. New share offerings or rising debt may mean a firm can't generate enough cash internally, Piotroski hypothesized.

These are pretty stringent criteria, and the method usually doesn't turn up very many stocks with decent liquidity. Here are three that recently scored highly on my Piotroski screen. I own the second two.

Nasdaq OMX Group (NDAQ, 20), which runs the Nasdaq exchange in the U.S. and other Nasdaq exchanges across Europe, trades at a 16% discount to book value. It's more than just cheap. It has a strong, improving balance sheet, with a 2.46% return on assets (up from 2.45% a year earlier), 1.2 current ratio (up from 1.07) and 42% gross margin (up from 40%). Its long-term debt/assets ratio of 17% also is down slightly from 18% the previous year.

A smart accounting professor came up with a formula that distinguishes solid firms whose shares were beaten down from dogs.

EchoStar Corp. (SATS, 20), which was spun off in January 2008 from the Dish Network, makes set-top boxes and other products for pay television providers. The company, which has a $1.7 billion market value, also delivers satellite services in 160 U.S. cities. EchoStar's price at a 40% discount to book places it firmly on the Piotroski radar, and other pluses include the firm's 4.5% return on assets (up from –14.4% a year earlier), 3.75 current ratio (up from 3.33) and 23% gross margin (up from 20%).

Kaiser Aluminum Corp. (KALU, 38) makes fabricated aluminum products for aerospace, engineering, automotive and custom industrial applications. It trades at a 19% discount to book value, enjoys a 6.6% return on assets (up from –6% a year earlier), has long-term debt down to 1% of assets (from 4% a year ago) and has current assets worth 2.4 times current liabilities (up from 1.8 a year ago). **F**

Forbes.com

John Reese is chief executive of Validea.com and Validea Capital Management LLC.

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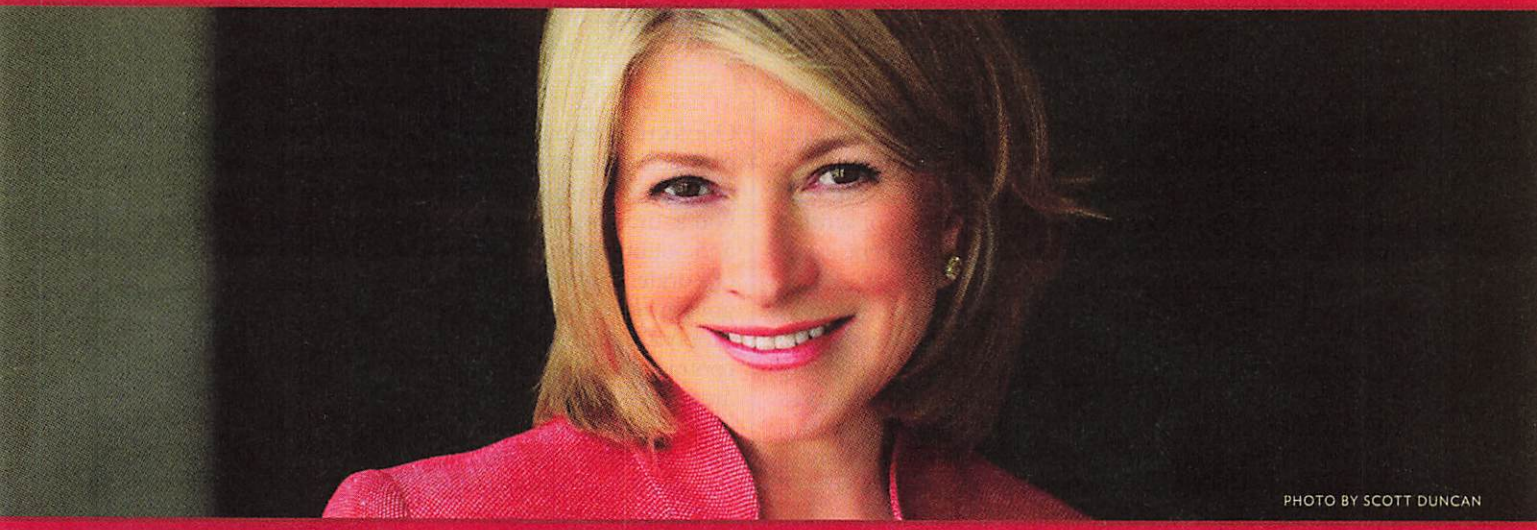

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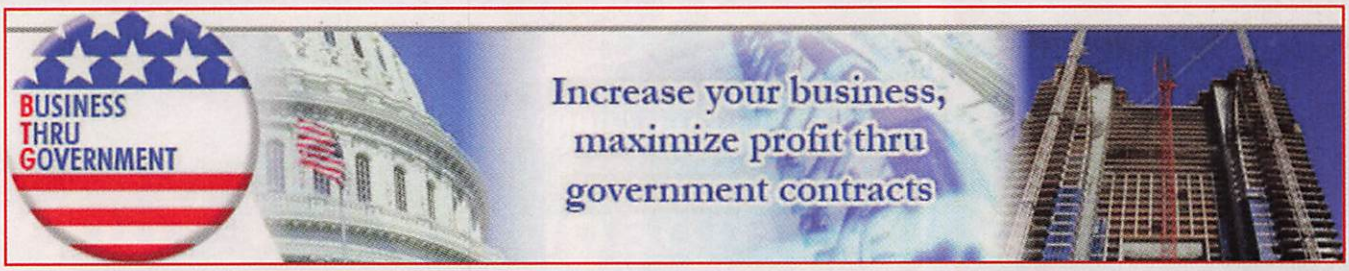

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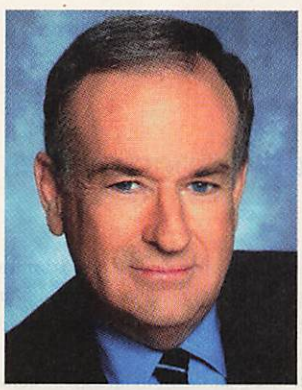

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POLAND International Investors Respond to Stable Economy and Privatization Opportunities

By Susan Burnell

With better economic stability than any other EU state last year, Poland is gaining a significant level of interest and investment from around the globe. Opportunities created by the Polish government's Privatization Plan adopted in 2008 have generated over US$1.8 billion in the first quarter of 2010 alone.

According to the 2010 AT Kearney Foreign Direct Investment Confidence Index, Poland is the sixth-most-attractive country in terms of investments, a ranking that places it ten notches ahead of its 2007 ranking. Poland is now Central Europe's largest country in terms of its GDP, which reached US$690 billion last year. Since 2000, Poland's GDP-per-inhabitant has risen four-fold, from US$4,473 to US$17,989. The country's GDP grew by 1.7% in 2009, the highest among all EU countries. A growth rate of between 2.5% and 3% is forecast by the World Bank for 2010.

Since its accession to the EU in 2004, Poland has made significant strides towards economic stability. Key elements include a well-controlled fiscal and monetary policy, avoidance of subprime loan involvement and low mortgage indebtedness.

Direct foreign investment activity shows that investors consider Poland a secure area for doing business. Ernst & Young's "2008 European Attractiveness Survey" ranked Poland as the best place for investments or development projects—above Germany, Russia and France. With relatively low labor costs and highly qualified workers, Poland has attracted total investments of US$48.1 billion in the last three years.

The inflow of EU funds—US$96.6 billion by 2013—is expected to help Poland reduce the impact of the global economic crisis on its own economy. Infrastructure and education will receive the bulk of EU funding. The country will get another economic boost when it co-hosts, with Ukraine, the UEFA 2012 European Football Championship.

Privatization Opportunities in Energy, Chemical, Financial and Other Sectors

Proposals for privatizing more than 800 companies are a part of Poland's Privatization Plan 2008–2011, estimated to generate approximately US$13 billion by 2011. The scope of transactions and anticipated revenues of over US$9 billion for 2010 make this the Plan's most significant year to date. Currently, approximately 600 companies in which the Treasury owns shares are intended for privatization.

IPO opportunities in 2010 include PZU, the largest insurer in Poland and Central and Eastern Europe; and Tauron, the country's second-largest producer of electric energy. Also coming up is the sale of the Warsaw Stock Exchange, the leading stock exchange in Central and Eastern Europe.

In the last two years, energy company Enea, the coal mine LW Bogdanka, and PGE—one of the largest energy groups in Central and Eastern Europe—were successfully listed on the Warsaw Stock Exchange.

In addition to energy, chemical and financial sector companies, privatization opportunities exist in manufacturing, technology, metallurgy, publishing, food processing and pharmaceutical companies. Resort properties, real estate firms, trading companies, service units and minority shareholdings are included as well.

ZA Pulawy - nitrogen works

To facilitate the ownership transformation process, The Ministry of Treasury offers a wide range of privatization options. It has created an English-language Web site for potential investors, which provides access to a database of company profiles, strategic business plans, privatization schedules and procedures. An Investor Relations Centre complements the investor-friendly services of the Ministry. ●

CONTACT:

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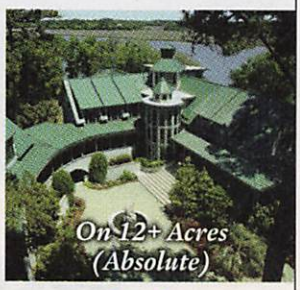

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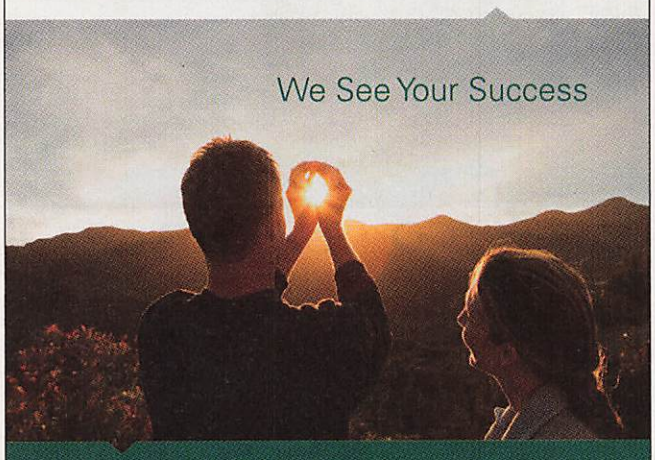

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THOUGHTS

On the Business of Life

In days of old when seaports were alive with sailors bold, waterfronts were rough and tough. They vibrated with ships and cargo, seamen and stevedores, chandlers and provisioners, bars and brothels. Nice people gave 'em a wide berth. My, how things have changed. These days the far fewer ships left give a wide berth to old ports such as New York, Boston, Baltimore, San Francisco, et al. Rotting old piers and pilings, abandoned warehouses, ferry slips and railroad yards are giving way to flavorful restaurants, shops and pricey condos. —MALCOLM FORBES (1986)

The bar is an exercise in solitude. Above all else, it must be quiet, dark, very comfortable—and, contrary to modern mores, no music of any kind, no matter how faint. In sum, there should be no more than a dozen tables, and a clientele that doesn't like to talk.

—LUIS BUÑUEL

The bar is the male kingdom. For centuries it was the bastion of male privilege, the gathering place for men away from their women, a place where men could go to freely indulge in The Bull Session.

—SHULAMITH FIRESTONE

How much of our literature, our political life, our friendships and love affairs, depend on being able to talk peacefully in a bar!

—JOHN WAIN

[Taverns] are universal places, like churches, hallowed meeting places of all mankind.

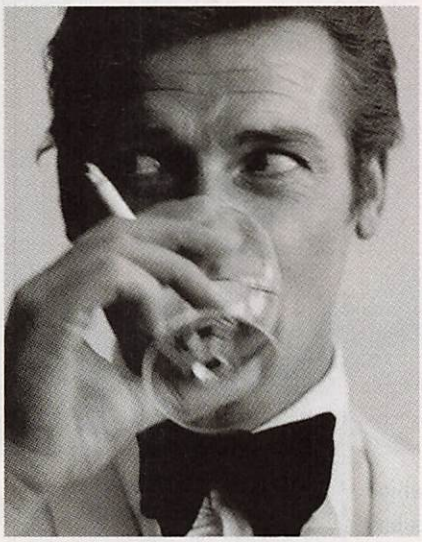
—IRIS MURDOCH

If you can't explain your physics to a barmaid, it is probably not very good physics.

—ERNEST RUTHERFORD

The promised land at day's end, where gelid martinis—conical pools of bliss—glow with platinum dew and sit atop their long pelican legs on the mahogany bar, sentries overlooking bowls of salty nuts.

—ENO PUTAIN



O City city, I can sometimes hear
Beside a public bar in Lower Thames Street,
The pleasant whining of a mandoline
And a clatter and a chatter from within
Where fishmen lounge at noon: where the walls
Of Magnus Martyr hold
Inexplicable splendour of Ionian white and gold.

—T.S. ELIOT

I write to discover what I think. After all, the bars aren't open that early.

—DANIEL BOORSTIN

By the time a bartender knows what drink a man will have before he orders, there is little else about him worth knowing.

—DON MARQUIS

The bar was like a funeral parlor with a beverage service.

—BILL BRYSON

Watlington, which combined the distinction of being the smallest town in England with having more pubs per head of the population than I believed possible.

—JOHN MORTIMER

My misdeeds are accidental happenings and merely the result of having been in the wrong bar or bed at the wrong time, say most days between midday and midnight.

—JEFFREY BERNARD

The cocktail is a pleasant drink;
It's mild and harmless—I don't think.
When you've had one, you call for two,
And then you don't care what you do.

—GEORGE ADE

A TEXT...

Give, and it shall be given unto you; good measure, pressed down, and shaken together, and running over, shall men give into your bosom.

—LUKE 6:38

Sent in by John O'Donnell, Bethesda, Md.

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